ANNUAL REPORT OF THE POSTMASTER GENERAL

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ANNUAL REPORT OF THE POSTMASTER GENERAL

TUESDAY, JUNE 22, 1982

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C.

The committee met at 10:50 a.m., in room 3302, Dirksen Senate Office Building, Hon. Ted Stevens presiding.

Present: Senator Stevens.

Staff present: Wayne Schley, staff director, Subcommittee on Civil Service, Post Office, and General Services; Pauline Hildebrandt; Pat Halcomb; Merry Halamandaris; and John Rixey.

OPENING STATEMENT OF SENATOR STEVENS

Senator STEVENS. Sorry to delay.

My apology to you, Mr. Postmaster General, and to the others who are with you. We had a meeting at the White House, then I had to substitute as leader to open the Senate. This has been delayed, and I know I kept you waiting. I do welcome you here this morning, Mr. Bolger. You have now been Postmaster General since 1978, and I believe you are doing a fine job.

Mr. BOLGER. Thank you.

Senator STEVENS. For those who are here, Postmaster General William F. Bolger is with us in compliance with section 2401(g)(1) of title 39 of the United States Code, which requires that a comprehensive statement relating to the plans, policies, and procedures of the Postal Service designed to comply with all the provisions of section 101 of title 39 be presented to Congress.

We are well aware that the U.S. Postal Service—formerly the Post Office Department—is the second oldest department in the Federal Government. The Postal Service is a major and significant element in facilitating our Nation's communication and commerce. The USPS is, without question, the single most important Federal agency that ties this Nation and its people together.

The postal problems change in form and substance and intensity and complexity. It seems that just as we resolve one issue, another one pops up. But I believe we are making progress, Bill, and at least it seems that the severity of the problems has lessened. I hope this morning the Postmaster General will be able to make a record so that anyone interested will learn not only what the Postal Service has done since the last time you appeared before us, but a hint as to what lies ahead for the Postal Service and the Nation as far as your contribution to it.

Thank you very much. It is nice to have you here. Please identify the gentleman with you for the record.

TESTIMONY OF WILLIAM F. BOLGER, POSTMASTER GENERAL, U.S. POSTAL SERVICE, ACCOMPANIED BY JIM FINCH, SENIOR ASSISTANT POSTMASTER GENERAL, FINANCE GROUP

Mr. BOLGER. Jim Finch, Senior Assistant Postmaster General for Finance.

Senator, I am delighted to be able to appear before you today. You stated the purpose of the hearings, so I will not go into that. I would just like to give this brief statement to bring you up to date concerning where we are from the time we filed a comprehensive statement for fiscal year 1981.

This year, our employees have continued to face a growing mail volume, which we are glad to have, and they have handled it very well. During the second quarter, which ended in April, our 2- and 3-day service performance was improved from the same period last year and our 1-day performance remained about the same.

In January we initiated our E–COM service, which makes use of computers and electronics to help us automate part of our functions for computer-originated mail. We had to begin under the cloud of a last-minute lawsuit challenging our authority to proceed with this service. In April, we were pleased that the U.S. Court of Appeals rejected this challenge so that the service can continue.

More than 1 month past the halfway point in the present fiscal year, our financial results have been very good. Through the first eight 4-week accounting periods, the Postal Service has been running at an operating surplus of $635 million. While these figures are good for this year, they should have been even better had the current rates been implemented earlier in 1981 as originally planned.

The current surplus should come as no surprise. To have the rate stability which is so necessary to keep the Postal Service functioning as a healthy and vibrant service organization, we need a period when we run ahead before our costs catch up and we start to drop behind. Until the last few years, we had not been able to do this. As a result, we started this year with a cumulative net loss since 1971 of $3 billion. With good results so far this year and with some further progress during the rest of the year, we should do well enough to avoid the next rate increase until at least November 1983.

Might I mention at this point in time that, hopefully, we will avoid a rate increase on our domestic rates until early 1984. I have been quoted as saying we can go to 1985. Well, I do hope so, but I cannot promise we can go to 1985. I can promise we can go until 1984 under current conditions, as we see them.

I would like to go as long as possible with the lowest rates as possible. Certainly, 1985 is the goal I set for our management people to accomplish. I do not know if we can make this achievement, but we are working on it.

So far, our volume and revenue have been just about what we expected. We are a little ahead of plan in holding down operating costs. One of the factors has been good management of work hours during the period of decreased volume after Christmas. Also important has

been the decrease in the inflation rate—unfortunately, it is taking an upturn today—primarily due to lower energy costs. This has helped to hold down our costs for transportation, fuel, and utilities. Where we were today, before today's inflation announcement, we were using an annual base of $19.7 billion a year in costs.

But the crucial time for this year's financial performance is still ahead. The remainder of the year includes the time when we traditionally experience lower productivity than in the first half of the year, because mail volumes tend to be lower.

In order to meet our financial goals for the year, our managers will have to do a very good job of matching manpower to workload during this period. A less controllable factor is energy costs. It will help if these costs remain relatively stable in the months ahead.

In October of this year, the Postal Service will launch its automation program with the deployment of new state-of-the-art optical scanning equipment in a few major post offices. Thereafter, this program will be phased into additional offices on a scheduled basis through two deployment stages until 1987 when some 211 key mail processing sites will have been automated.

While automation will have minimal impact upon Postal Service productivity during the present calendar year, we see it as the key factor in sustaining the momentum of our productivity growth in the years ahead. We are optimistic that this new emphasis on automation will enable us to provide a high level of service on a universal basis while maintaining our rates at reasonable and stable levels.

Before answering any questions you may have, I would like to briefly show you, with the aid of a few graphics, why I feel the public will still need the U.S. Postal Service long into the future.

Let me begin by discussing mail volume in general.

Mail volume historically has grown with the country. This chart illustrates how that growth has occurred in the recent past.[1]

In the 1960's, total mail volume increased by 21 billion pieces or 34 percent. Extrapolations of these trends led to predictions of a Postal Service totally swamped with mail by as early as 1980. However, in the early seventies, it seemed that something drastic had happened to mail volume. Its growth curve clearly leveled off and by the middle seventies, predictions of a drastic drop in mail volume by 1980 were heard. In retrospect, it is easy to see what happened. Inflation, recession, and the rate increases necessary to balance costs and revenues took their toll.

For example, in the 1970–76 period, while the CPI increased by 47 percent, the Postal Service was forced to raise almost all its rates at a far faster clip.

Since the midseventies, however, the Postal Service achieved rate stability, having survived the worst of its startup difficulties. Therefore, although postal volume from 1970–81 increased by 25 billion pieces or over 30 percent, almost all of the increase has been concentrated in the last 5 years, after Postal Service management had achieved the necessary and difficult tasks of bringing costs into line.

From an historical perspective, the 1975 predictions of a continuing decline in mail volume simply don't seem credible. For over 95 years,

[1] See p. 63 for charts.

the population of the country has climbed at a steady rate of between 1 and 2 percent per year.

The real GNP has combined at an ever-increasing rate as our society has increased production and our people have become more and more affluent. Though we had financial panics in the 1890's, two World Wars, the Great Depression, Korea, Vietnam, and stagflation, the overall economic growth of our country has been outstanding and unstoppable.

Growing right along with the country and the population has been mail. Again, over these 96 years, we have not only gone through economic periods of boom and bust but have also witnessed more technological innovations than in previous recorded history. The telephone, radio, television, and microwave all came into the communications arena. Satellite transmission, data processing, and solid state electronics came to fruition. Despite the most probable impact upon our business and repeated pessimistic predictions, postal volume has continued to climb as we have more people with more disposable income.

During the sixties and before, that increased volume was handled by increasing the number of employees.

Since reorganization, however, these steady increases in volume have been processed and delivered with fewer employees, a condition which I feel is indicative of the effectiveness of postal management.

Productivity in the private sector of the economy increased approximately 16 percent since 1970, while postal productivity increases were 38 percent in the Postal Service over the same period.

To those who assert that prices have skyrocketed in recent years, I would like to point out that the Consumer Price Index has been on a steady climb since the 1930's, while postage rates were held constant from 1933 to late 1958.

As a matter of fact, by 1981, postage rates, with the 20-cent stamp, had risen exactly in line with overall price levels in the economy over the 49-year period. If we are able to put off another rate increase until late 1983, or early 1984, as I stated is our expectation, the cost of a first-class stamp will be well below the CPI levels.

Another way of looking at it is to take the postage rate for first-class mail and deflate it. This chart [1] illustrates that the real cost of first-class mail in the past year has been about equivalent to what it was on the day the U.S. Postal Service came into being, on July 1, 1971. Again, if we are successful in our efforts to hold off a rate increase, the real cost of postage, for individuals and businesses, will be less than 1971 levels relative to average prices for other goods and services.

A major topic of concern to you and the Postal Service is the potential diversion of communications now in the mailstream to other services. Over the last decade, much attention has been focused on this issue, with several attempts to determine the potential diversion which could occur. None of these was successful. In 1973, Charles Jackson of MIT forecast the effect of electronic mail on the Postal Service. As you can see, he predicted that at best, 1980 mail volume would be 83 billion pieces, which is significantly below what actually occurred.

Our own in-house attempt to update previous diversion studies and

[1] See p. 63 for charts.

project future volume arrived at a similar conclusion. As of now, mail volume should only be 83.2 billion pieces.

In 1976, the Commission on Postal Service and George Washington University predicted that 1985 mail volume would approximate 90 billion pieces. Arthur D. Little projected that first-class mail volume in 1985 would be less than what has already been achieved. Again, the predictions are well below current trends.

Most recently, the General Accounting Office, and Richard Deale Associates in a study for the Office of Technology Assessment, predicted steadily declining volumes, and steady diversions from the mailstream.

My only comment would be that from what we have seen before, predicting mail volume has been a chancy venture at best.

Despite awesome technological innovation over the last century, mail volume has continued to grow. To find out why, and to get a better handle on our business, we undertook household and nonhousehold mailstream studies during the late 1970's. These were in-depth looks into what actually moves through the mailstream and who mails it.

Growth in mail volume is heavily dependent upon growth in the economy as a whole. We learned that businesses send 83 percent of all mail and that households send twice as much mail to businesses as they do to one another. Households receive 62 percent of all mail and business-to-business mail accounts for only 27 percent of the total mail volume.

We also determined that the volume of mail which a household receives correlates with household income: Households earning over $25,000 receive almost 2½ times the mail a household earning $10,000 receives. With those factors in mind, let's turn to the future climate in which we will operate.

Data Resource Inc.'s latest long-term economic projections show continued growth in the economy and a lessening of inflation. This bodes well for the Postal Service.

With respect to demographics, the future for increased volume is promising. By 1990, there will be 21 million more people and 16 million new households. There will also be an increase in real household income during the next 10 years, especially in that segment of the population which receives mail.

In conclusion, the next 5 years appear to be a period of continued economic growth, with favorable demographic factors, and a low probability of immediate volume diversion since the Postal Service is quite strong in the household market.

Thus we see continued growth as long as we can keep our costs under control and provide our customers the services they need, at fair and reasonable rates. I speak for myself and for the people at the Postal Service when I say we look forward to this challenge.

That concludes my presentation, Senator.

Senator STEVENS. Thank you very much.

This morning's paper has an article concerning the comments that the Chairman of the Federal Trade Commission made before the Joint Economic Subcommittee concerning a proposal to abolish the Private Express Statutes. Apparently, the Chairman of the Federal Trade Commission has indicated that if Congress wants to guarantee good service to rural areas, they should adopt a special subsidy for that

purpose, and the subsidy would cost the consumer less than the current prices.

Apparently, the Chairman also stated that, at a minimum, the Postal Service should provide a detailed report justifying why the monopoly should continue, and the Congress should make the Postal Service more accountable in its rate decisions by increasing congressional oversight, and the Postal Rate Commission should be given greater power to investigate rates.

I want to print that article in the record.

[The article referred to follows:]

[From the Washington Post, June 22, 1982]

FTC CHAIRMAN URGES END TO POSTAL SERVICE MONOPOLY

(By Caroline E. Mayer)

One of the government's top antitrust officials urged Congress yesterday to lift the U.S. Postal Service's special antitrust status that has given the post office a monopoly over delivery of first-class mail.

Federal Trade Commission Chairman James C. Miller III, in testimony before a Joint Economic subcommittee, said that the introduction of competition for mail delivery could help consumers by improving service and lowering postal rates.

Under law, private firms can deliver packages and overnight letters, but are banned from handling first-class mail.

Speaking for himself—and not the FTC—Miller charged that the post office has used this law to protect itself and hurt competitors and consumers. "There is a long list of private entrepreneurs who have tried to deliver low-cost first-class mail but were driven out of business by the USPS—not by head-to-head competition—but through repeated USPS court actions to enforce its monopoly," Miller charged.

Miller was joined by the president's top communications adviser, Bernard Wunder, assistant Commerce Secretary for communications. Although the Reagan administration has not taken a position on changing the law, Wunder said that personally he believed that "competition will best serve the public and I am aware of no factual basis" for retaining the monopoly.

U.S. Postmaster General William Bolger expressed strong concern about the quality of mail service should the post office's monopoly be lifted. Bolger questioned how letters would be exchanged between different domestic companies serving different parts of the United States, how Americans who moved would get their mail forwarded, and how letters would be delivered to and from foreign countries.

Miller acknowledged that with the elimination of the post office's monopoly, some rural post offices could be closed. However, he added, "it is extremely unlikely that the postal service would ever be ended in those areas. More likely, mail delivery in rural areas would continue but residents would have to travel farther to purchase stamps and to undertake other transactions at a post office."

If Congress wanted to guarantee that good service be maintained for rural residents, it could adopt a special subsidy—which would cost consumers far less than the current monopoly rates do, Miller charged.

Miller is not the first antitrust official to urge the repeal of the post office's monopoly. More than five years ago, the Justice Department called for similar action.

The Justice Department has also been opposed to post office's entry into the electronic mail business, arguing that there are plenty of private companies eager to provide the same service.

At a minimum, Miller said, the post office should be required to write a detailed report justifying why its monopoly should continue. If Congress agrees with the report, then it should, at the least, make the post office more accountable in its rate decisions by increasing congressional oversight and giving the Postal Rate Commission greater power to investigate rates.

Senator STEVENS. I would like to have you give us whatever comments you want to make now, but give us a response in writing if you

would. Let me precede your comments by saying that after having witnessed the Postal Service's subsidy being deleted in the conference process on the budget in the last week, representing a rural area like I do, I would never depend upon a subsidy provided by Congress to assure that the Postal Service would deliver its mail in Alaska. So Mr. Miller and anyone else can just forget about it as long as I am here, but I would like to have you make your comments just for the record. [Laughter.]

Mr. BOLGER. Senator, I read the article this morning. I have read through Mr. Miller's testimony once. I haven't really studied it to see where he is coming from. But I understand his testimony was given as Jim Miller and not as Federal Trade Commission Chairman.

[Mr. Bolger's response to testimony of Mr. Miller follows:]

STATEMENT OF U.S. POSTAL SERVICE IN RESPONSE TO TESTIMONY OF FEDERAL TRADE COMMISSION CHAIRMAN JAMES C. MILLER

In his testimony before the Subcommittee on Economic Goals and Intergovernmental Policy of the Joint Economic Committee, Mr. Miller advocated repealing the Private Express Statutes and eliminating uniform postage rates for letter mail. In addition, he questioned the way the Postal Service calculates the costs of its services and establishes rates. He also favored minimizing Postal Service competition with private firms, particularly with regard to electronic mail services.

Before addressing particular policy arguments made by Mr. Miller, we believe it appropriate to speak to several preliminary matters. First, we would like to correct a misstatement of the scope of the Private Express Statutes. The Private Express Statutes, with certain exceptions, prohibit the carriage of letters and packets outside the mail without paying postage. The Statutes do not create a monopoly because they do permit some competition with respect to the carriage and delivery of letters, and, moreover, do not restrict alternative means of communications, such as by telephone. In sum, since letters may be freely carried if postage is paid, the Statutes generally preclude only price competition with the Postal Service. In addition, the restrictions apply to the carriage of letters and packets regardless of the class of service for which they would be eligible if they were sent by mail. Thus, it was incorrect for Mr. Miller to say that the Statutes do not apply to matter eligible for mailing at third-class rates, *see Associated Third Class Mail Users* v. *U.S. Postal Service*, 600 F.2d 824 (D.C. Cir.), cert. denied, 444 U.S. 837 (1979), and to say that the Postal Service redefined the term "letter" to extend the Statutes' restrictions to letters that mailers might choose to send by Express Mail service.

It is also important to emphasize that the limited restrictions established by the Private Express Statutes do not exist in a vacuum. The restrictions exist to enable the Postal Service to carry out specific, statutory policies established by Congress. These policies include the provision of universal delivery service to all of the United States, uniform first-class letter rates for all mailers, provision of a maximum degree of service to rural areas, the maintenance of postal facilities convenient for all mail users, and the provision of postal services with minimal reliance on appropriations of tax revenues. It has been the judgment of Congress that these policies serve the best interests of the people of the United States. It has also been the judgment of Congress that the only way to carry out these policies economically is to have a postal service that is not subject to competition from "cream skimming" carriers who will serve only those mailers and geographical areas with respect to which costs are lowest and profits highest.

A government postal service, operating under service policies such as those Congress has prescribed for the Postal Service, is a linchpin of the American economy. To carry the suggested policies to their logical conclusion and abolish the Postal Service and its service mandate, would seriously disrupt business activity. For example, it is no secret that AT&T and the Bell System Operating Companies are among the largest users of the mail, particularly with respect to billing and collection. We believe it fair to say that they use the mail because the mail is the least costly, most efficient way of collecting what is owed them. If there were no Postal Service, in our opinion, no one would undertake at a

reasonable price to deliver bills to all telephone users all over the United States and to deliver customers' responses to central points where AT&T and its subsidiaries can most efficiently process them. In particular, we do not believe that anyone would undertake such a task at rates that all AT&T's residential customers would find acceptable.

With respect to the suggested approach to evaluating the need for the Private Express Statutes, the position that the burden should be on the Postal Service to prove the need for continuation is a very unwise way to make such an important public policy decision that will affect so many people. For over two hundred years, the government postal service has met the needs of the people. When something is working as well as the universal service provided by the Postal Service is working, it makes no sense to tamper with it unless one is absolutely certain that the result will be an improvement. That certainly applies with respect to repealing the Private Express Statutes. No one knows what would happen if the Statutes were repealed. We believe it most likely that the quality and level of services would decline, and that, with the exception of a few mailers, overall costs for postal services would increase greatly. It should be up to those who want to do away with universal service and uniform rates to prove that their system will really bring more and better benefits, and to prove their case with real world facts, not economic theories built upon unproven assumptions.

It should also be noted that the testimony contains errors of fact. For example, the Pony Express was not put out of business by the Private Express Statutes. In fact, the Pony Express was started in April, 1860, as a private enterprise, seeking to do business with the Post Office Department as a mail route contractor. The company lost a great deal of money while operating without a contract, but did demonstrate that its plan was feasible. During this period, the company had no Private Express Statutes problem because it was not operating over post roads. On July 1, 1861, it began to operate under contract with the Post Office Department as a mail route. The company went out of business in October, 1861, because a better means of rapid transcontinental communications, the telegraph, became operational. Thus, the Pony Express was never a competitor of the Post Office Department.

Similarly, the overnight delivery market was developed initially by the Postal Service, not the private sector. Express Mail service on a contract basis was initiated by the Post Office Department in 1970. Service on a noncontractual basis was begun in 1971. In contrast, Federal Express was not even founded until 1973.

The characterization of the Postal Service's administration of the Private Express Statutes is also erroneous. In the first place, the limits of the Statutes' restrictions have been firmly fixed for over one hundred years. From time to time, the Postal Service does have to make decisions on whether particular borderline materials are letters, but this is an ongoing process of applying generally well-understood, long-standing criteria to new situations. Likewise, the Postal Service attempts from time to time to improve its regulations by making them clearer, and to improve its administration by adopting regulations dealing with particular problems when it appears that such an action would assist the public in complying with the law. In each such instance, the Postal Service has sought the input of the public and has conscientiously carried out the law.

The Postal Service's administration of its power to suspend the Private Express Statutes' restrictions has also been consistent with the public interest. In this regard, it must be noted that letters can be carried out of the mail if the proper amount of postage is affixed and certain other requirements are met. Thus, when any mailer wants a service the Postal Service does not provide, a private carrier is willing to provide the service, and the mailer wants the service enough to pay a small premium for it, the mailer can get the service and still comply with the Statutes. The Postal Service's exercise of its suspension power has removed even these burdens when removal appeared in the public interest, i.e., when demand for a particular service was substantial and removal of the burdens would not undermine the policies the Statutes support. This sensitivity to public needs is an indication of good administration of the Statutes, not, as the testimony implies, an indication of arbitrary, self-serving administration.

ARE THE PRIVATE EXPRESS STATUTES ECONOMICALLY JUSTIFIED?

Mr. Miller stated that "competition among firms in a free market most efficiently allocates resources and best encourages growth and innovation." As a general statement, this is a basic tenet of American economic theory. Economic

efficiency is certainly a desirable goal for any business enterprise, and, for that matter, any government entity. The testimony appears to suggest, however, that among competing goals economic efficiency is the most desirable. This overlooks the service goals, such as universal service at uniform rates, which it has been the judgment of Congress to foster in connection with the provision of a nationwide postal system.

As noted above, it is impossible to discuss the Private Express Statutes in isolation from the policies which Congress has established based on its views of what would most benefit the public. These policies have been preserved over the years primarily as an exercise of Congress' continuing judgment that they reflect the popular will. The restrictions on price competition established by the Private Express Statutes exist only because Congress believes that they assist the Postal Service in effectuating these statutory policies. It is highly unlikely that these policies could be effectuated without maintaining the Private Express Statutes, for the Statutes accomplish their purpose by protecting mail volume and postal revenues. The ability of the Postal Service to provide universal service at uniform rates would be severely hampered if the Statutes were abolished or weakened. A universal postal system depends on large mail volumes. It could not run well if significant volumes of letter mail were taken away by private delivery firms providing cheaper but very selective services in the most profitable areas.

In addition, certain economic arguments appear to be based on the assumption that in the absence of the Private Express restrictions on the carriage of letters, perfect competition among the providers of mail service would be realized. In our view, the resulting competition would not only be far from perfect, it would also be unfair.

In order for the free competition model to function properly, Congress would have to take one of three possible courses of action: (1) abolish the Postal Service and entrust the provision of national postal services to competing private firms and the vicissitudes of market forces; (2) repeal the service and price constraints imposed on the Postal Service by statute; or (3) impose on all competitors the same service and price obligations and constraints that are imposed on the Postal Service with regard to universal service at uniform rates. Were Congress to elect the first or second alternatives, it would, of course, have to abandon most of the postal policies it has supported throughout the history of the national postal system. Were it to take the third course, a new regulatory bureaucracy would be born.

The testimony also suggested a fourth alternative: permit free and fair competition among private firms offering selective, low-cost services, but hold the Postal Service to its service and price obligations and thus prevent it from engaging in free and fair competition with the private sector. The result is not hard to predict. Private firms would siphon off the relatively low-cost-to-serve business mail, which dominates postal volume, leaving the Postal Service as the carrier of last resort for the relatively high-cost-to-serve mail.

We disagree, moreover, with the implication that the Postal Service, because it is a government enterprise, has a reduced concern for efficiency and innovation. The Postal Service is required by law to operate efficiently and to keep its rates as low as possible. Furthermore, the Postal Service has been eager to innovate and take advantage of new technologies. It has made significant strides in the last ten years in the areas of containerization and mechanization. It has developed, in conjunction with the private sector, new equipment to make mail processing more efficient, such as electronic improvements to letter sorting machines, new equipment which uses optical character readers, and bar code readers. It has instituted the use of computers for sorting mail and for forwarding mail. These developments show no lack of innovation.

Mr. Miller also asserted that the market failure which ordinarily justifies government enterprise is not present in the postal system and offered as evidence the fact that many private firms have been willing to provide mail services. Ordinarily, however, we do not begin our analysis with the existence of a government enterprise which has served the bulk of the market for over 200 years. We know of no private firms, moreover, which stand ready to provide the type of nationwide service the Postal Service is mandated to provide.

In addition, Mr. Miller stated that there is no convincing evidence of substantial economies of scale capable of leading one to conclude that the Postal Service is a natural monopoly deserving of government protection. This is a complex issue which is much debated in economic circles. Mr. Miller cited only those few who have reached the conclusion that the Postal Service does not exhibit econ-

omies of scale. This conclusion, however, does not accord with all the available literature. Other experts have reached the contrary conclusion. The delivery function is the one in which it seems most clear that costs do not rise directly in proportion to volume increases and that one supplier can operate more economically than can two. There is also evidence that economies of scale exist in transportation, processing and administrative operations.

Finally, the statement that if the handling of mail were a natural monopoly, the Postal Service would not need the Private Express Statutes to foreclose competition is misleading if qualified. Recent economic research has shown that it is possible, under certain conditions, that a natural monopoly may require legal protection from potential competitors in order to preserve its socially beneficial position. This research focuses on the multiproduct natural monopoly and the question of sustainability. A firm is a multiproduct natural monopoly if the cost of producing all its products in one firm is less than the sum of the costs of producing the products in separate firms. The firm is then said to have economies of scope. The results of this relatively recent economic research indicate that a natural monopoly may not be able to sustain itself against competitors because of the prices it charges or because of its cost structure. There is good reason to believe that the Postal Service exhibits both economies of scale and of scope and that the characteristics of its cost and pricing structure may combine in such a way as to make it a natural monopoly that cannot be sustained without legal protection. In this event, it would not be inconsistent for the Postal Service as a natural monopoly to need such protection from competitors as the Private Express Statutes provide.

NEED FOR A STUDY OF THE PRIVATE EXPRESS STATUTES

As a public agency, the Postal Service is always concerned that the public receive the best postal services that can be provided. At the same time, we are skeptical of the value of a study of whether the Private Express Statutes are economically justified, because the basic justification for the Statutes is the social and economic importance of universal postal service to the vast majority of mailers who probably would not benefit from competition. Moreover, it is not at all clear that any study could really resolve the debate over the economic issues.[1]

EFFECTS OF REPEALING THE PRIVATE EXPRESS STATUTES

The testimony asserts that repealing the Private Express Statutes would more efficiently allocate resources, in part by forcing abandonment of uniform rates; that large mailers of concentrated mail would pay lower rates, but that rural mailers would not have to pay much more; that rural service would not be cut back; and that in any event, Congress could directly subsidize "rural delivery." With all due respect, we find these assertions too simplistic.

We first take issue with the implicit belief that lower overall mailing costs can be inferred from possible rate reductions for certain types of mail. Mailers tend to send and receive all types of mail—urban, suburban, and rural originating and destinating mail, single piece and bulk mail, letter-shape and parcel mail. To the extent that some mailers might incur lower costs from reduced rates for some mail, the savings for most mailers would be exceeded by higher costs for other mail and by higher prices for goods and services provided by mailers who send predominantly higher-priced mail.

We find the assertion that non-uniform rates would more efficiently allocate resources unpersuasive. For this to be correct, it must be proved that the Postal Service has no economies of scope and scale. The assumption that it does not appears to be based on outdated studies of the pre-reform Post Office Department and on conjecture. Moreover, given the intricate relationships of postage prices and costs of all other goods and services, it must be proved, not merely assumed, that overall efficiency would be improved. No attempt was made to do this, primarily because such things are not susceptible to empirical proof. Thus, the testimony has failed to demonstrate that the present allocation of resources is inefficient or that an alternative allocation could be better.

The assertion that rural service can somehow be isolated and specifically subsidized exhibits a misunderstanding of what universal service is and how it is provided. Service to, from, and within rural areas is but one part of a fully integrated network. "Rural" mail may be considered to include mail destined for

[1] *See* National Academy of Public Administration, Evaluation of the United States Postal Service, 143–165 (1982).

rural areas that originates in urban and suburban areas as well as in rural areas, and mail originating in rural areas destined for urban and suburban areas. Thus, "rural" mail can be sent by virtually anyone, anywhere, and, at least with respect to the Postal Service, is commingled with all other mail for processing. This means that it would be very difficult to determine who should receive subsidies with respect to "rural" mail and how much any particular subsidy should be.

In contrast to views stated in the testimony, we believe that the consequences of repealing the Private Express Statutes would largely be bad. Assuming that the Statutes were repealed, but that Postal Service price and service requirements were not, we believe that the Postal Service could not carry out its duties without drastically raising prices or receiving large subsidies. This deterioration would probably take several years, but it would be inevitable. We do not think that the American public would find either high prices or large subsidies acceptable, when they came, but we suspect that the public realization of these consequences would come too late to correct the mistake. The result in the end would be at best a vastly diminished government postal service and, for most people, no prompt, reliable, and economical mail service that could serve their diverse needs. This would be because most firms would compete only in delimited geographic areas, and even if a few firms might undertake to serve larger geographic areas or most intercity markets, no firm would undertake to provide service everywhere. Thus, an infra-structure for the exchange and forwarding of mail between numerous firms would have to be developed. We do not believe that many people would like that aspect of the new mail market, because creation of an infra-structure would entail either joint operating agreements that would raise costs and create anti-trust questions (especially agreements between larger companies which might be suspected of also having "no competition" agreements) or a national regulatory scheme that would itself limit competition. All-in-all, this would be a very unsatisfactory state of affairs.

Assuming that the price and service constraints were repealed at the same time the Private Express Statutes were repealed, the Postal Service would probably change and cut back many of its services, but it would survive as an effective competitor in the market. We cannot predict with certainty what might eventually happen, but some results do seem likely. Except for delivery of geographically concentrated mailings in relatively densely populated areas, prices would rise substantially and vary by distance. There would probably be a surcharge in addition to distance-based rates for mail originating or destinating in rural areas and perhaps in poorer sections of urban areas. Many small post offices and an unknown number of other retail facilities would be closed, causing mailers to incur higher costs which would not be reflected in rates. It is also possible that daily delivery in many areas would be curtailed. In sum, service would still be widely available, but most mailers would get lower levels of services at higher and sometimes very much higher, prices.

The testimony also fails to deal with the legal restraints imposed on the Postal Service. For example, repealing the Private Express Statutes does not affect the requirement that first-class mail rates be uniform. Thus, if a viable Postal Service is to be included in the market, attention must also be given to those laws established by Congress which prohibit the pricing of postal services in accordance with the views stated in the testimony.[1]

POSTAL RATES AND THE POSTAL RATE COMMISSION

The comments on the costing and pricing of postal services within the context of Postal Rate Commission proceedings evidence an apparently incomplete knowledge and understanding of the development of postal classification and ratemaking since 1974, when Mr. Miller was a witness for Reader's Digest Association in Docket No. R74–1.

Mr. Miller implies criticism of what he characterizes as "restrictions" that recent federal court decisions have placed on the Commission's authority to review the Postal Service's rate and classification proposals. In particular, he mentions the Second Circuit Court of Appeals decision in *Newsweek, Inc.* v. *United States Postal Service*, which, among other things, held that the Commis-

[1] The testimony also fails to address the administrative constraints imposed on the Postal Service with respect to pricing. The "transaction mail" proposal, for example, implies a criticism of the Postal Rate Commission's pricing policy. The Postal Service has a "rate category" for bulk mailings that are presorted by ZIP Code and carrier route. The rates for this mail are 3 cents and 4 cents cheaper than non-presorted mail and are based on a discount from the non-presorted rate. If this mail were categorized as a "subclass," it would be priced according to its own costs and demand elasticities rather than according to a discount, and might well have a lower rate than it now has.

sion had stepped beyond the bounds of its authority in seeking to force more frequent rate increases by arbitrarily reducing the Postal Service's revenue requirement by almost $1 billion.

As he acknowledges, the court in that case quite correctly concluded that the timing of rate cases was a matter that Congress intended to be left to the sound discretion of the Board of Governors. In that instance, the Postmaster General recommended and the Board concurred that the interests of the public, and postal customers in particular, were best served by promoting a policy of rate stability, and that the sums excluded by the Commission were proper components of the Postal Service's revenue requirement. Mr. Miller does not address the wisdom of this determination, but rather apparently believes that more frequent proceedings before the Commission, which are already extremely complicated, costly, and time consuming, will increase the Commission's ability to assess accurately and fairly the Service's rate proposals. We do not agree with this assessment, but rather stand by the Board's judgment, which the court upheld.

The testimony attempts to reinforce an image of a Commission with a weakened review function by suggesting in several different contexts that the Postal Service deliberately frustrates Commission review by failing to provide adequate information and data. While this criticism is not new, it does not fairly take into consideration the great extent to which the Postal Service supports its proposals with massive amounts of data and evidence, and the extent to which the Service submits financial and other information to the Commission on an ongoing basis.

In the last general rate proceeding, Docket No. R80–1, the Postal Service supported its initial filing with over 12,000 pages of evidence, workpapers, and reference materials pertaining to every class and subclass of mail and special service. In the course of the proceedings, furthermore, the Service answered over 6,000 separate, detailed questions about its case propounded by the parties and the Commission itself, and filed hundreds of pages of rebuttal testimony. It was by far one of the most thoroughly documented ratemaking proceedings of any kind in any industry.

The Postal Service, moreover, does not limit production of data and information to that offered in formal Commission proceedings. In accordance with the Commission's rules and otherwise, the Postal Service throughout each year provides a variety of information concerning its costs, revenues, operations, and financial condition. Some of this is the same kind of information the Postal Service is required to submit in Commission rate proceedings. Among other materials, thirteen times a year it furnishes trial balances for every one of the thousands of accounts in which it reports costs and revenues. A typical trial balance contains 158 pages.

Mr. Miller's concern is apparently not limited to the submission of data to support rate and classification proposals, but rather extends to the creation of new data through studies of postal costs and operations. He favors greater effort to explore these matters by special study and analysis. The testimony does not take into account, however, that in every general rate proceeding and many classification proceedings, the Postal Service makes public major new studies of postal costs and operations, many of which have been conducted at the request or suggestion of the Commission. In the last general rate proceeding, for instance, the Postal Service presented the results of a two-year effort to determine empirically the behavior of carrier street time costs, which the Commission had requested in its opinion in Docket No. R77–1. The Service also presented the results of a new analysis designed to reflect the peak load phenomenon in the distribution of mail processing costs, which the Commission had also requested in previous cases.

Similarly, the testimony ignores the several important studies of costs and operations recently completed in connection with the Postal Service's long range mail classification study program. These studies, which together with underlying data bases have been made available to the public and the Commission, represent significant advances in the knowledge of postal costs and mailing patterns. The Commission, which, with the Service, promoted the development of these studies, has commended the Postal Service for its efforts.

The discussion of postal costing methodologies seems somewhat confused. For instance, the recent *Newsweek* decision is cited as a restriction of the Commission's review authority. Yet later in the testimony it is admitted that the decision actually gives the Commission and the Postal Service more flexibility in determining methodologies than do the conflicting District of Columbia Circuit decisions which, in the context of the *Newsweek* appeal, are currently being reviewed by the Supreme Court. The dispute before the Supreme Court is also mischaracterized as one between the Commission and the Postal Service. Ac-

tually, it was the Commission's and the Service's mutually shared interpretation of the Reorganization Act that the D.C. Circuit rejected and that the *Newsweek* opinion held was permissible.

In this regard, the discussion of cross-subsidization in connection with postal costing seems similarly confused. The initial decision of the Chief Administrative Law Judge in Docket No. R84-1 is cited as evidence that first-class mailers are "taxed" for the benefit of the other classes. In fact, however, the Commission in that docket soundly rejected the Law Judge's conclusion, severely criticizing his approach to costing as arbitrary and uneconomic.

The rates adopted by the Governors in the most recent rate proceeding are predicated upon all classes of mail paying all of the costs they actually cause, in addition to making a significant contribution to institutional costs. Indeed, some mail categories, for instance, third-class, make a contribution to overhead that is a higher proportion of its rate than does first-class mail. The suggestion that first-class mail subsidizes the other classes is unfounded.

ELECTRONIC MAIL SERVICES

The comments with respect to Postal Service provision of electronic mail services, with particular reference to E-COM service, misapprehend the reasons for the Postal Service's activities and the specific actions it has undertaken. We first wish to emphasize that with respect to basic telecommunications and data processing in general, the private sector appears generally to be serving the public adequately. The Postal Service has no plans or intentions of entering these fields or of competing with the firms that provide these services. The Postal Service has repeatedly stated that it has no intention of providing so-called "Generation III" message services. On the other hand, there is a large and growing demand for delivery of hard-copy messages generated by computers, word processors, etc. Likewise, because the Postal Service is required to operate efficiently, it must take advantage of new technologies to fulfill its mission.

E-COM service was designed to meet mailers' hard-copy delivery needs in the most efficient way possible. It permits mailers to take advantage of the efficiency and speed of computer generation and electronic transmission of messages. It also enables mailers to avoid the costs and problems of generating hard-copy messages and transporting those hard-copy messages to a post office for mailing. At the same time, E-COM service enables the Postal Service to perform its processing and delivery functions more efficiently. This is because acceptance of mail in electronic form enables the Postal Service to merge the mail of many mailers electronically, to sort that mail more efficiently, and to produce hard-copy in a manner that is less costly to handle when it must be manually or mechanically processed.

These efficiencies cannot be achieved by the private sector in general, or by competing firms in particular. First, if the Postal Service did not receive messages in electronic form, it would have to receive them in hard-copy form, so that the costs of acceptance could not be avoided. The total amount of these acceptance costs would depend on the number of firms presenting mail; the larger the number, the larger the lost savings if E-COM service were not available. Second, all of this hard-copy would have to be merged and sorted manually or mechanically—a much more expensive and time-consuming process than computer manipulation of messages. Thus, mailers would have to pay the costs of unnecessary and less-efficient postal operations. Again, the amount of lost cost savings would be greater if a larger number of firms were to produce hard-copy.

E-COM service also provides a most efficient, cost-effective way of working with the private sector to provide services utilizing telecommunications, data processing, and hard-copy delivery. It makes no sense, for example, for many companies to have to make duplicative investments in all the equipment—computers, printers, envelopers, etc.—needed to provide E-COM-like service when the Postal Service can provide efficient equipment and, by combining the input of several mailers, utilize that equipment effectively. Further, to the extent that many companies might want to install equipment on Postal Service property (and thereby avoid the costs of carrying hard-copy to a post office for mailing). the Postal Service does not have the physical capacity to accommodate such wants.

With all of these advantages to the public, it makes no sense to restrict the Postal Service's use of modern technology. This is particularly so when the private sector has not provided the kinds of widely-available, low-price services the Postal Service wants to provide, and, indeed, has shown no interest in providing such services except in partnership with the Postal Service.

The testimony also summarizes a now-familiar argument that the Postal Service may be subsidizing E–COM service with revenues from other mail services. The Postal Service takes its cue here from private-sector firms which regularly offer new products and services requiring substantial capital investment. An allowance of time for customers to become aware of our new offering and to adapt their mailing practices to the E–COM system is essential to the service's development. We remain committed to economically self-sufficient E–COM operations measured over a reasonable period of growth and development; if there are deficits in these initial months, we will ensure that rates in subsequent periods are adequate to recover those deficits. In addition, we are continuing to isolate, measure, and record the costs of providing E–COM service, not only to enhance the rate-setting process for the service, but also to demonstrate—to the extent possible—that cross-subsidization is not occurring.

In its comparison of the Rate Commission's projections of E–COM capital costs with the price of the contract between the Postal Service and RCA Corporation, the testimony seems to suggest that rates for E–COM service require immediate adjustment. An immediate, and upward, change in rates has been suggested frequently by critics of the Postal Service. Two of Mr. Miller's own points, however, counsel against a precipitate filing with the Rate Commission. First, he is an advocate of extensive study of Postal Service operations and costs, and this is precisely our plan for E–COM service. The initial, two-year set of E–COM proceedings before the Rate Commission necessarily involved projections with little or no basis in experience. The vicissitude of such projections is amply demonstrated by the cost figures cited in the testimony. Any future changes in E–COM service's classification and rate schedules will be based upon carefully examined experience and research, rather than to incur unnecessarily the risks of largely before-the-fact projections.

Further support for this approach can be found in Mr. Miller's recognition that the cost of a pricing system should be taken into account in designing rates. The system for setting postal rates is an expensive one, not only for the Postal Service, but for participating customers and competitors as well. To litigate E–COM rates or other features without further experience would likely require that our proposals be altered, and our analysis be revised, several times during a six- to twelve-month proceeding. Other parties and the Commission itself would be put to needless expense in responding to such changes. To avoid this, we intend to produce information on E–COM service which will provide a more objective basis for the inevitable debate before the Rate Commission.

Senator STEVENS. There were some people from the White House there personally. I noticed there was a member from the Commerce Department there personally. I just wonder if they collected their pay for that day. [Laughter.]

Other than that, I don't know how people can appear personally when they have titles, but they seem to find some way to do it.

Mr. BOLGER. I appeared yesterday myself before that subcommittee, and I stated that with respect to the Private Express Statutes, I see nothing wrong with examining them from time to time, because the rules do change and they should be examined—to see whether they are still needed to assure that the public interest is protected. I testified very strongly and feel very strongly that the Private Express Statutes uphold universal service at uniform rates so that the Postal Service can serve everyone and every place in America. I would be glad to participate in any study that anybody wants to conduct to establish whether this is the case. I firmly believe it is the case, and I think I will stand on that position.

Senator STEVENS. It is interesting to me that the same people who have raised that criticism are those who supported the action to keep the Postal Service from its E–COM or electronic mail system. I am inserting in the hearing record a response from the Attorney General's office on this subject and ask that you provide for the record your response to this letter. I believe a reasoned, well documented response will be helpful.

[A letter to Senator Stevens from the Justice Department, June 15, 1982, concerning E-COM and the Postal Service's response follow:]

U.S. Department of Justice

Antitrust Division

Office of the Assistant Attorney General *Washington, D.C. 20530*

15 JUN 1982

Honorable Ted Stevens
Chairman
Subcommittee on Civil Service,
Post Office and General Services
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The Attorney General has referred your letter of March 12, 1982, to me as he has recused himself from matters relating to the United States Postal Service's ("Postal Service") electronic computer originated mail service ("ECOM"). I have delayed responding to you in order for the Antitrust Division to study, as you suggested, the Office of Technology Assessment's ("OTA") draft report on the Postal Service's participation in the electronic mail business. I am enclosing for your information copies of our comments on various drafts of OTA's report. Based on the draft report and the independent analysis by my staff of the matter, I will attempt to address each of the issues you have raised.

Will ECOM Subsidize Other Postal Services and thus Keep Postage Rates Down?

You have stated that the Postal Service's offering ECOM will benefit all Americans by generating extra income that the Postal Service can use to "help defray normal postal overhead costs and help keep postal rates down." It appears, however, that ECOM will be able to subsidize other mail services only if the Postal Service can prevent private firms from competing with it.

ECOM and similar so-called "Generation II" electronic mail services consist of a message processing service, a nonpostal service, as well as mail delivery, a traditional postal service. Message processing in turn consists of data processing services (inserting names and addresses from computerized mailing lists into the electronic messages and then converting the completed electronic messages into individual, printed hardcopy letters) and mail preparation

services (such as stuffing the letters into envelopes, sealing the envelopes and delivering them in bulk to a postal facility). Once these nonpostal services have been performed, either at the Postal Service's regional ECOM facilities or at a private competitor's facilities, the completed letters are delivered through conventional mail channels.

For ECOM-generated electronic mail, the 26-cent ECOM postage rate supposedly covers both the Postal Service's nonpostal message processing expense and its mail delivery expense. Normal first class mail delivery requires 20 cents postage and presumably covers 20 cents of costs for mail delivery alone, including a contribution towards general overhead. If less than 20 cents of ECOM postage is allocated for mail delivery, this would mean the Postal Service receives less postal revenue from delivering ECOM letters than from delivering private firms' electronic letters and conventional first class mail. This is so because, under the private express statutes, users of any private electronic mail service must pay that private service's processing fees plus 20-cents postage (ignoring presorting discounts granted all mailers) to the Postal Service for delivery of each hardcopy letter. The Postal Service's postal costs for delivering electronic mail should be roughly the same whether ECOM or a competitive service prepared the letters. 1/ Thus, given the same postal revenues and postal costs, the Postal Service will receive the same net amount regardless of whose electronic mail service mailers use. In short, ECOM should generate no extra postal revenues that can defray the Postal Service's overhead.

ECOM can provide the Postal Service extra nonpostal revenues, however, only if the Postal Service can perform data processing and mail preparation services more efficiently than private firms or if it can stop private firms from competing with it. We have seen no evidence that the Postal Service can provide data processing and mail preparation services more efficiently than private firms. Thus the Postal Service appears to have no ability to extract extra revenues from electronic mailers by providing these nonpostal services. We note that, if the Postal Service is only as efficient as its

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1/ Differences in the relative postal costs of handling the Postal Service's ECOM letters and private firms' electronic mail may arise depending on the number and location of regional processing centers and the extent to which the processing center consolidates different mailers' letters before presorting them by zip code. We note that the Postal Service does not require ECOM users to send their messages to the ECOM facility nearest their destinations, and thus no assumption can be made that ECOM mail will be the least costly electronic mail for the Postal Service to deliver.

competitors, it cannot charge more than they do for message processing services. If it did, mailers would take their business to the cheaper, private competitors.

Thus, the only way ECOM could provide the Postal Service extra revenues would be if the Postal Service could prevent private firms from competing with it. As discussed in greater detail below, this might be achieved through indirect subsidization and the underpricing of ECOM. If so, however, the Postal Service would not generate added revenues through ECOM to subsidize first-class delivery. It is likely that it would be a more efficient policy to have Congress provide the Postal Service with direct subsidies, if necessary, for first class delivery services alone than to deprive mailers of efficient electronic mail services that a competitive market would provide. We believe that our analysis is consistent with OTA's conclusions as stated in the most recent draft we have seen.

Because Most Businesses Expect to Lose Money Initially, Should the Department Not Object to ECOM Rates as Being Noncompensatory?

Another point you raise is that most businesses incur initial losses on new undertakings. This point leads you to ask:

> Why should the Postal Service be required to make a profit on a new venture their first year out when few, if any, other businesses expect to recover their costs the first year?

It is quite true, as your question suggests, that a private competitive firm may choose to incur initial losses in order to encourage customer use and thus achieve, as quickly as possible, efficient and profit-making volume. The Department's concerns regarding the Postal Service's involvement in ECOM are premised, however, not merely on whether, as discussed later, the 26-cent rate is or is not compensatory, but also on the fact that the Postal Service is not a private business. It thus has no profit incentive to make ECOM an efficient operation. So long as the Postal Service can offer ECOM service at a loss, or so long as potential competitors believe that the Postal Service could do so, private firms will be deterred from offering competitive services. We believe that such private electronic mail services are likely to be more efficient and more innovative than services offered by the Postal Service, which is not subject to the discipline of the market place. Thus, permitting the Postal Service to offer electronic mail service may deprive mailers of the best possible electronic mail services.

Congress, too, has recognized that, lacking a profit motive, the Postal Service may have incentives to offer some services at a loss in order to fulfill other institutional objectives, e.g., to maximize the number of pieces of mail delivered. Thus, to forestall this, the Postal Reorganization Act requires that postal rates for each mail service, such as ECOM:

> bear the direct and indirect postal costs attributable to that class or type [of mail or mail service] plus that portion of all other costs of the Postal Service reasonably assignable to such class or type . . . .

39 U.S.C. § 3622(b)(3). The Act does not provide any guidance, however, on how long the Postal Service should have to meet this requirement when offering new services. 2/

Do Taxpayer and Other Subsidies Permit the Postal Service to Underprice ECOM?

As you have noted, we believe that current ECOM rates are noncompensatory and may continue to be so for some time. These losses are being made up from Treasury revenues and from revenues generated by other mail services, in particular, conventional first class mail. As noted above, Congress has

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2/ The Postal Rate Commission attempted to establish a two step ECOM rate structure in order to satisfy this statutory requirement. In its recommended decision to the Postal Service Governors, the Commission established a 30-cent rate for one-page ECOM letters for fiscal years 1980 and 1981, to cover the Postal Service's projected costs of 29.14-cents per ECOM letter under the initially expected volume levels and a projected $7.4 million capital investment, and a lower 26-cent rate thereafter as volume supposedly increased. Under the Commission's rate-making assumptions, a 26-cent rate would have resulted in losses of $927,000 for the first year of ECOM service while the proposed 30-cent rate would have contributed $648,000 to Postal Service overhead. Opinion and Recommended Decision, December 17, 1979, pp. 136-144. Not only does the current 26-cent rate fail to cover these costs, but inflation has affected the base cost estimate arrived at almost 3 years ago. Though the Postal Service Governors directed postal management in September 1981 to report on "appropriate [ECOM] rates" early in 1982, Statement of Robert L. Hardesty, Chairman, Board of Governors, U.S. Postal Service (September 22, 1981), the Postal Service has made no ECOM rate request to the Postal Rate Commission. Nor has the Postal Service published any analysis demonstrating that the current 26-cent rate is the appropriate rate in light of the Postal Service's $38 million investment in ECOM and current ECOM volume levels.

been concerned about these possibilities. Despite the statutory language appropriating Treasury funds only for non-ECOM purposes and other statutory provisions prohibiting unduly preferential postal rates, this subsidy remains possible because modern accounting techniques are incapable of protecting taxpayers, other mail users and competitors from such misallocations in an organization as large and complex as the Postal Service.

Moreover, given the relatively small volumes of ECOM mail thus far, a large percentage of its costs can be shifted to other mail services with only a small increase in the rates for these other services. If the Postal Service should misallocate expenses to other services that are properly chargeable to ECOM, the effect is to reduce the rate necessary to make ECOM rates compensatory and to increase other rates, including those for first-class mail users who, under the private express statutes, have no competitive alternatives.

The General Accounting Office recently described this phenomenon in a report on the telephone industry.

> Where a firm operates in two markets--one monopolized and one populated by new competitive entrants--it has an incentive to cross-subsidize the competitive markets by undercharging for services in the competitive markets and overcharging for services in the captive monopoly markets. The effect of such pricing behavior can nullify or restrain the development of competitive markets.
>
> . . . [A] regulated firm facing competitive entry in particular markets may have an incentive to classify as much cost as possible in categories which are not directly attributable to a specific service and also design its plant to be joint cost in nature. As a result, the directly attributable costs of producing competitive services appear "low" and the firm can then justify to the regulator low prices based on these apparently low costs for services facing competitive entry.

Comptroller General, Legislative and Regulatory Actions Needed to Deal with a Changing Domestic Telecommunications Industry 65-66 (September 24, 1981).

While a separate accounting unit for providing ECOM services may reduce opportunities for subsidized pricing, it cannot eliminate it. We believe the best possible method for protecting everyone from this type of ECOM pricing is to

prohibit the Postal Service from offering ECOM. The Postal Service should not be harmed by such a ban because it would still receive 20 cents of revenue from each piece of privately-generated mail, and yet not have to pay for the initial sorting and longhaul transportation costs it incurs in delivering conventional mail.

Does the Private Sector Have "Mixed Feelings" About ECOM Because ECOM Makes Some Business Opportunities Possible?

You have suggested that the Department's concerns for protecting private firms from the Postal Service seem "misapplied" in light of the fact that some firms feel that ECOM will provide them new business opportunities. We believe that you have misunderstood our concerns. Our concern is that electronic mail services be provided as efficiently as possible. As private firms with profit incentives are most likely to be the most efficient providers of such services, they may benefit from our opposition to a government agency's entering their business. We also have no evidence that private firms offering electronic mail services would discriminate against private firms as users or thwart their business opportunities.

Moreover, we believe that the fact that some private firms do not object to ECOM does not, by itself, justify the Postal Service's entry into the electronic mail business. We would not expect users necessarily to object to the Postal Service's offering ECOM unless the benefits of objecting outweighed the costs of doing so. This may be a case of users accepting government enterprise because it is currently underpriced and thus creates inefficient demand.

We also recognize that private firms offering complementary services may find that ECOM provides them attractive business opportunities. For example, common carriers may find that providing links to ECOM generates more telecommunications revenues, especially if an underpriced ECOM service generates more electronic mailflow than proper pricing would warrant. In addition, the Postal Service's 200 message requirement 3/

3/ Although the Postal Service has established 25 regional ECOM facilities in order to provide one or two day delivery within the continental United States, it also requires that each facility refuse electronic transmissions consisting of fewer than 200 messages. A mailer sending thousands of messages may nevertheless fail to meet this 200 message requirement at one or more ECOM facilities, and thus need to send letters destined, for example, to Oregon and Washington to the San Francisco ECOM facility where the requirement is met rather than to the Seattle ECOM facility where it is not met, or to use conventional first class mail.

appears to have created a niche in which mail consolidation services can operate. Although these mail consolidation firms could also serve private firms' electronic mail services, the Postal Service's ECOM service may provide them their only market if no other electronic mail service has similar minimum message requirements. Thus these firms may especially favor the Postal Service's offering ECOM without regard to whether ECOM is an efficient service.

As you are aware, the Court of Appeals for the District of Columbia Circuit denied the Department's request for an extraordinary writ under the All Writs Act, 28 U.S.C. § 1651, to halt ECOM service. In re United States, No. 81-2402 (D.C. Cir., April 20, 1982). The Court's decision was not on the merits of the underlying issue of whether the currently offered ECOM service satisfies the statutory criteria of the Postal Reorganization Act. The Department is currently considering whether to seek a rehearing of this decision. Thus the litigation has not yet come to an end.

In addition, although the Court of Appeals suggested that further proceedings before the Postal Rate Commission might result in the suspension of ECOM service, the Commission has proposed terminating its ECOM docket by authorizing ECOM as a permanent mail service. The Department has opposed the Postal Rate Commission's proposal on the grounds, among others, that it is inconsistent with the Commission's own findings that the record thus far in the ECOM docket did not support a permanent ECOM service. I am also enclosing copies of our comments on this Postal Rate Commission proposal for your information.

I hope this letter has responded adequately to your concerns.

Sincerely yours,

William F. Baxter

William F. Baxter
Assistant Attorney General
Antitrust Division

Postal Service Response to William Baxter letter
of June 15, 1982

The Antitrust Division's reply to the points made in Senator Stevens' letter primarily stakes out a doctrinaire position that private activity can be presumed more efficient than public activity. Since this position is presented essentially as an article of faith, there seems little need for the Postal Service to reply, other than to point out that such a bald statement fails to suggest why E-COM service should be evaluated differently from the rest of what the Postal Service does, or for that matter from much other Government activity.

The letter supplements its basic position with a few assertions specifically addressed to E-COM service. First, it says that "postal costs for delivering electronic mail should be roughly the same whether [E-COM] or a competitive service prepared the letters." This does not squar with the facts of how E-COM works. E-COM service enables the Postal Service to automate a number of costly manual functions for greater efficiencies which it cannot apply to mail received in hard-copy form. A hard-copy message deposited in the mailstream by a private electronic service would be received manually over the counter, at a loading dock, or in a collection box. It would have to be transferred manually for soting and then to a consolidation and dispatch point. Depending on how and where it was presented, it might also have to pass through culling, facing, and canceling operations and be transported

to an intermediate processing facility. An E-COM message avoids all of these manual steps through electronic transmission directly to a point in a major postal facility specially geared to handle it. With sufficient E-COM volumes, the Postal Service will be able to program its computer and printing operations to produce E-COM messages in large bundles already sorted by ZIP Code sequence, thereby eliminating other later processing steps. In developing the present E-COM rate, the Postal Rate Commission estimated that E-COM service would avoid nearly 20 percent of normal mailstream costs.

Second, the letter says there would be no contribution to overhead from the non-mailstream portion of the service because the Postal Service cannot do that work as efficiently as the private sector and will carry the same number of messages anyway without E-COM service. These arguments are also incorrect. They ignore the built-in efficiencies which the Postal Service has as the organization which handles the hard copy. In order for a private firm to get its hard copy into the mailstream, it must incur the manual handling and transportation expense required to take the mail out of its own facility and carry it to the post office or a collection box. With E-COM computers and printers right on its premises where they can be linked efficiencly to later processing steps, the Postal Service avoids these labor and transportation costs. Such efficiencies and the Postal Service contribution to marketing efforts should enable E-COM service to increase the

overall volume of hard-copy electronic messages passing through the mailstream, by attracting messages which otherwise would not be sent or would be committed to less attractive substitute services.

The other specific assertions appear in a footnote to the argument that current E-COM rates are not compensatory, an argument which seems to depend primarily on the letter's ideological assumptions. The footnote mentions two specific points without further development: that E-COM capital costs have proved higher than estimated and that three years and considerable inflation have gone by since the present rate was developed. The letter does not mention that estimates of capital costs seem to have accounted for perhaps about 1-1/2 cents of the rate and makes no attempt to explore whether the other particular elements of the 26-cent rate have turned out higher or lower than estimated. It fails to mention that the rate was developed to last through October 1, 1983, with an inflation factor already built in. No attempt is made to assess whether falling inflation rates may have undercut some part of the cost estimates which produced the 26-cent rate. The Postal Service has been monitoring actual cost and volume experience during the early months of E-COM service and is obtaining more refined volume projections. The need for filing proposed changes in both rates and classification is expected to be considered by the Board of Governors in 1983, possibly leading to some changes about the time originally contemplated by the Postal Rate Commission when it developed the rate.

Senator STEVENS. That action has been terminated now, hasn't it?

Mr. BOLGER. No, the Justice Department has gone back to ask for en banc review of the decision that we got from the circuit court. We feel that we are going to prevail in that, but they are back in court again.

Senator STEVENS. You are proceeding with the E–COM now, aren't you?

Mr. BOLGER. Yes, sir, we are doing it, and actually, the volume has been growing. I will submit for the record a volume sheet to indicate how it has been growing. We don't have a great deal of volume, but it went from 110,000 pieces in the first accounting period to 200,000 pieces in the last accounting period; it doubled in volume. I think one of the reasons the volume hasn't grown is that we had that pending litigation. But I think now that with marketing and the fact that the litigation is almost over, we will be able to get more from the E–COM.

[The information referred to follows:]

	E–COM volumes		Percent increase over previous A/P
	Ending	Volumes	
Fiscal year 1982:			
A/P 4	1/22	9,696	.....
A/P 5	2/19	29,607	205
A/P 6	3/19	33,509	13
A/P 7	4/16	54,617	63
A/P 8	5/14	133,325	144
A/P 9	6/11	216,193	62

Senator STEVENS. We are going to be debating here soon, in fact today, the conference report on the urgent supplemental which contains no additional moneys for the Postal Service.

Several members have approached me on the floor and indicated that since you are turning a profit, you don't need any more anyway. Is that right? Can you survive the year without any subsidy?

Mr. BOLGER. Senator, we are going to survive. This year it is a lot easier because we do have an operating surplus, an operating surplus we should have.

But as I have consistently stated since I assumed this job, the elected representatives of the people should determine how the taxpayers' dollars should be spent. If I lose that subsidy, I will take no action to reduce our levels of service. The most common thing said about it was that we would have wholesale closing of small post offices or the elimination of Saturday delivery. We are not going to get on that road, and we shouldn't get on that road. Saturday service is needed and certainly it should be provided.

Senator STEVENS. What is going to happen to nonprofit mailers if that money is deleted from the appropriations process? We are not totally bound by that provision in the budget compromise. We have not lost a postal subsidy as a matter of law. We just have to cut something else if we need it.

What is going to happen to nonprofits if either that money is not restored or somehow you don't get the money for it?

Mr. BOLGER. The comments I made, of course, were addressed to the public service subsidy. On the revenue forgone subsidy, I will let Jim Finch give you more details.

Senator STEVENS. There is some money in the budget recommendation, right?

Mr. BOLGER. Right.

Senator STEVENS. But does that loss add to your deficit?

Mr. BOLGER. If we do not get the revenue forgone appropriations that we should, then we pass a price increase along to the nonprofit organizations. We can submit for the record a statement of exactly what will happen to those rates under various conditions.

Senator STEVENS. Have you got that with you?

Mr. FINCH. Yes, I do.

As I understand it, the resolution now being considered would authorize a revenue forgone appropriation of $400 million.

Mr. BOLGER. Jim, are we talking about the urgent supplemental appropriation? There is a different figure. This is the 1983 appropriation.

Mr. FINCH. That is not the question.

Senator STEVENS. I confused the two. We are doing both today on the floor, the urgent supplemental and the budget conference. The budget conference took out all but $400 million for 1983. The urgent supplemental has not been changed for this year. As postal rate levels are set, I am determined to stop the fluctuation of rates as much as we can. If we do not do something, rates will come down and then go back up and come back down again. Hopefully we can have a steady rate, as envisioned under the urgent supplemental, but without the funding as required under the budget resolution. The mailers will have to pick up the difference in 1983 without the public service subsidies and without any assistance under the revenue forgone. Is that right?

Mr. BOLGER. We have set the rates; the rates are set. How they are funded for the nonprofits is still open until the budget and the appropriations process is completed.

Senator STEVENS. All right. What is your finding on that? What is going to happen to nonprofits?

Mr. FINCH. Under the urgent supplemental, the effect of that would be that in 10 days after it is signed into law to set the preferred rate categories—the nonprofits and a few others—would be set at step 13 on the current phasing schedule and we would not have a rate adjustment as of July 6. They would maintain that level rate through the end of the fiscal year. We are prepared to put that into effect should it be signed into law.

The resolution that is before the Senate today, as I understand it, authorizes an appropriation at the $400 million level for revenue forgone for fiscal 1983 beginning October 1 of this year.

Were that amount to be subsequently appropriated, there is a substantial shortfall in what normally would have been our request for revenue forgone to subsidize the rates of these specific preferred rate categories.

I have a chart with me today which I will be happy to put into the record which characterizes what rates these various categories are paying as of today and what the rates would become October 1, if the Congress decides to appropriate at the $400 million level. It also, for your convenience, has those same levels worked out at the $500 million level and other versions that have been included in the various House and Senate budget resolutions or appropriations bills.

Senator STEVENS. All right. Good. Thank you. I would like to have a copy of that today.

[The chart referred to follows:]

COMPARATIVE PHASED POSTAL RATES FOR ILLUSTRATIVE MAILINGS

July 28, 1982

Adjusted for Appropriation Shortfall
Revenue Forgone Appropriations for all Classes Reduced Proportionately
FY 1983

	Current Rates Effective July 28, 1982	Rates at Total Revenue Forgone Appropriation of (millions) $708	$500	$400
Second Class Publications				
In County Rural Newspaper: Frequency: Weekly Weight: 4 ounces Advertising: 50% All Delivered In County Presorted to 5 Digits	3.4¢	3.8¢	4.7¢	5.6¢
Nonprofit Veteran's Magazine Frequency: Monthly Weight: 4 ounces Advertising: 20% New York to Chicago Presorted to 5 Digits	6.0¢	6.9¢	8.2¢	8.4¢
Classroom Classroom Publication Frequency: Weekly Weight: 12 ounces Advertising: 15% New York to Chicago 32 Copies per piece	6.4¢	6.8¢	8.4¢	10.5¢
Science of Agriculture Rural Agricultural Newspaper Frequency: Weekly Weight 4 ounces Advertising: 50% Within 150 miles of entry Presorted to 5 Digits	8.3¢	8.4¢	8.5¢	8.7¢

COMPARATIVE PHASED POSTAL RATES FOR ILLUSTRATIVE MAILINGS

Adjusted for Appropriation Shortfall
Revenue Forgone Appropriations for all Classes Reduced Proportionately
FY 1983

	Current Rates Effective July 28, 1982	Rates at Total Revenue Forgone Appropriation of (millions) $708	$500	$400
Under 5,000 Copies Newspaper Frequency: Weekly Weight: 4 ounces Advertising: 50% Within 150 miles of entry Presorted to 5 Digits	6.7¢	7.3¢	8.2¢	8.4¢
Third Class Nonprofit Fund-Raising Letter Weight: 3/4 ounce Nationwide Distribution Presorted to 5 Digits Required Presort	4.0¢ 4.9¢	4.4¢ 5.3¢	5.4¢ 6.4¢	6.3¢ 7.4¢
Fourth Class Library Rate Book Between Libraries Weight: 2 pounds New York to Chicago	$0.43	$0.48	$0.58	$0.65

Senator STEVENS. Some people have been contending that mailers are better off now using presort discounts as a way to get their message across rather than using E–COM.

Is that proving to be the case?

Mr. BOLGER. Senator, I think that is a judgment factor for each individual mailer. They have got to determine what price they should pay and what service they want to meet their business needs. E–COM has some limitations: it cannot be more than two pages; you cannot put enclosures in there.

As of yet, there is no color. They don't have their own logo yet. Overall, I think if you are looking for a stated message that didn't exceed two pages and you had the information on a computer, you would find it very valuable and very economical to send it through the E–COM system.

On the other hand, if you want all these other things, and you have to go more than two pages and you are not concerned with the costs of E–COM, then I would choose the other way.

I think it is a business decision they have to make depending upon the circumstances. I think both our rates and both of our approaches offer things of value, depending on what you want to get accomplished.

Senator STEVENS. What about this new postal service that started up privately in Utah, React Postal Service? That apparently has a contract with the 7–11 chain and will mail first-class letters at 18¾ cents a letter. I haven't found a three-quarter penny for that. I don't know how they do that in the 7–11.

Can you tell me how they do that in the 7–11 when they mail a letter for 18¾ cents?

Mr. BOLGER. I really don't know. I had our counsel look into that to see if they were complying with law and we are getting our proper postage. We are.

Senator STEVENS. They are getting the presort discounts, right?

Mr. BOLGER. Yes, they are accumulating enough volume from various sources so that they can put it altogether and present it to us in the minimum volume requirements to get the presort discount rates. They are not the first one. I don't know why they have gotten so much publicity on this. I guess it is because of that coupon arrangement that they have with the 7–11 stores out there. We have all types of organizations that use that discount presort rate approach.

They set up little businesses or some of them are big businesses. They accumulate mail and they process mail for a lot of companies so that they can qualify for the presort rates. It is nothing new. It is some smart entrepreneur who saw a profit in taking advantage of our rates. We still get our presort mail and they still get their rates.

The customer they serve also gets some advantages, too.

Senator STEVENS. I see they have to sell what amounts to four stamps at a time. They get four for 75 cents. Well, with a little ingenuity, I hope they make money.

Mr. BOLGER. That is what we call the American way.

Senator STEVENS. If they don't, you will probably have to end up by answering a lot of questions by Members of Congress as to why the letters weren't delivered.

On another matter, my office tells me we have had a lot of phone calls regarding the demolition of the old Frederick, Md., Post Office in the heart of Frederick.

Mr. BOLGER. The Frederick Post Office. We made a determination to put a new post office there a number of years ago. The first determination was to put it out on the outskirts and demolish or sell or otherwise dispose of the old building.

After some encouragement from the community, we built our post office downtown adjoining the old post office building with the understanding that we would demolish it and use it for employee/customer parking.

Things changed in Frederick again. Now that we have built the new post office next to this old one, some people do not want us to tear down the old building. We have gone back and forth on this several times, and I met with the mayor of Frederick who is still attempting to save that building.

He had until 5 o'colck this afternoon to make his final proposal to see if there is something acceptable to the Postal Service. He has met the deadline. It is in. We haven't studied it yet. One way or another, we are going to make a decision on it this week. It will be a final decision.

We have waited long enough. Either the mayor is right and we are wrong or we can sell him the building and let him dispose of it. But we have been back and forth like a tennis ball.

I think it is time to move. We have given everyone an opportunity to tell us their views.

Senator STEVENS. Have you kept the Senators from Maryland advised on that?

Mr. BOLGER. Yes, we have, indeed.

Senator STEVENS. We noticed in the Congressional Record a statement by a good friend, Congressman Floyd Spence of South Carolina, concerning the program of the postmaster of Columbia, S.C., where he gives monthly tours of his postal services and the operations there to individuals who have filed complaints with the Postal Service.

Is that a pilot program? Did he dream this up?

In any event, how is this working?

Mr. BOLGER. It works very well. No, it isn't a new one. We applaud him for his efforts. We have encouraged our postmasters to invite service clubs and community organizations and to have open houses in their post offices so that people can see what we do.

After all, it is their post office, and they ought to understand what we are trying to do and how we are trying to serve them. So we encouraged them.

The postmaster of Columbia—I read that same article—is doing a good job with it. But there are other ones around the country that do a good job. We do encourage it. I think it is a fine thing to do.

Senator STEVENS. Are you going to distribute that information concerning other areas so that programs can be followed?

Mr. BOLGER. We have. The postmaster of Baltimore, Md., who has had 51 years of service, developed sort of a handbook. I have distributed that to other sectional center managers around the country from our communications department.

Senator STEVENS. Good.

Turning to another item, the committee has been concerned recently about information we have received that certain organizations may be circumventing the intent of the Postal Reorganizational Act by using these 501(c)(3) organizations, nonprofit organizations, as dummies to mail out what amounts to business mail, business advertising. They qualify for a lower, nonprofit mail rate and send business solicitations from that nonprofit subsidiary.

Specifically, it was in the insurance business. I am told that $4.2 billion worth of insurance was sold by mail last year. Not all of those were in this category we are talking about, but what are you doing, now, to try and beat this unethical concept of using a nonprofit organization to solicit business for a profitmaking company?

Is this new? Is this a new phenomenon? Should we address it legislatively?

Mr. BOLGER. I don't think it needs to be addressed legislatively. It is not a new phenomenon. It is getting more publicity. One insurance company seems to take advantage of it more than others, but it is something that goes on from time to time.

The people get nonprofit status. We usually check with the IRS if they give them status as a tax-exempt organization, and they apply for exemption as a nonprofit business.

We usually explore that. If they meet the qualifications, we extend nonprofit mailing privileges. But we do have, from time to time, situations such as where the large insurance company was involved. They no longer have that contract.

With regard to the association, they have gone to a different insurance company, and that seems to have ended. But we have got a couple of cases I would like to submit perhaps for the record to show you what we have done.

In one of them, we are about to suspend their mailing privileges as a nonprofit organization because we think they have gone far afield in making a profit out of their situation. They are engaging in profitmaking activities and moneys are not going to a nonprofit organization.

I think it is something that is properly policed administratively. The laws are firm enough that we don't have to have any legislative activity.

[The cases referred to follow:]

The Postal Service does not have a capability of complete record retrieval in this area, because the day-to-day administrative functions are decentralized to the 37 Mail Classification Centers in major cities. Applications for special third-class rates are approved or denied by the Mail Classification Centers. Revocation for cause may be initiated by the postmaster at the Mail Classification Center, or by the General Manager, Domestic Mail Classification Division. The following are selected, sometimes egregious, cases in which the nonprofit mailing privileges have been revoked.

The 13 Mail Classification Centers have been instructed to question the qualification of 38 local Universal Life Church organizations. This is an organization in Modesto, Calif., which sells church charters and Doctor of Divinity degrees. The unit in Modesto is exempt from payment of Federal income tax under Section 501(c)(3) of the Internal Revenue Code as a religious organization. This does not extend down to any subunits. Nevertheless, the so-called "Mother Church" in Modesto leads potential purchasers to believe that they can purchase tax exemption along with the other credentials. Several of the nonprofit rate authorizations have been revoked.

The Life Science Church in Marion, Ind., was originally authorized to mail at the special third-class rates as a religious organization. This is another of the "mail order ministries" which sell preaching credentials. Our examination of the mailings of this operation revealed that the operator was a chiropractor and the major part of his mail matter was advertising for the sale of a still, ostensibly to be used for purifying water. The special rate authorization was revoked by the Postmaster at the Indianapolis Mail Classification Center, on the ground that the primary purpose was not religious.

The Association of Co-Operative Members, Inc., was originally authorized to mail at the special third-class rate as a nonprofit agricultural organization. The operation of the Association did not show that it was primarily functioning to advance agricultural interests. Its primary activity was offering a discount buying service through one profitmaking concern. It had become a buyer's cooperative instead of an agricultural cooperative. The special third-class authorization was revoked by the General Manager, Domestic Mail Classification Division.

A man named Don Slye, in Ohatchee, Ala., was "ordained" by mail and thereafter referred to himself as "Reverend". He put a sign on his place of business designating it as the Universal Church of Jesus Christ. This "church" was granted exemption from payment of Federal income tax under Section 501(c)(3) of the Internal Revenue Code. He then referred to his various business enterprises as "departments" of his church. He purchased a collection agency and operated it as his "Ministry of Mediation", on the ground that it was spiritually undesirable for people to owe money. There was, in fact, no church or congregation, or religious activity within the meaning of postal regulations. The special rate authorization was revoked by the Postmaster at Atlanta, Ga. On appeal, the revocation was sustained by the Director, Office of Mail Classification.

"Reverend" John Dawson operated what he called the National Service Church, in a deeply wooded area near Fountain, Fla. He applied for and received exemption from Federal income tax, as a religious organization, under Section 501(c)(3) of the Internal Revenue Code. The National Science Church was originally authorized to mail at the special third-class rates. Numerous complaints were received about the nature of the material being mailed. The Postal Inspection Service investigated. Reverend Dawson and his wife were tried and convicted under the provisions of the Child Pornography Statute of 1977. The special third-class authorization was revoked by the Postmaster at Miami, Fla., on the ground that the primary purpose and activity of the National Science Church was not religious.

C.M., Inc. (the C.M. stands for Contemporary Mission) was organized by five Roman Catholic seminarians. They claimed to be a part of an existing (Montfort Fathers) order. They were ordained by a visiting bishop from Ghana. C.M., Inc., was granted exemption from payment of Federal income tax as a religious organization and it was originally authorized to mail at the special third-class rates. It then made large mailings for various nonreligious money making mail order promotions. These included golf instructions, costume jewelry, an income tax guide, a chemical reducing bath, and others. The nonprofit special third-class rate was generally not used to mail religious materials. Investigation brought out (in the statement of the archdiocese of Bridgeport, Conn.) that "Contemporary Missions" was not recognized by the Catholic Church on any level, that none of these priests enjoyed canonical status in the Diocese of Bridgeport, and that they were therefore unable to function as Catholic priests within that diocese or any other jurisdiction. The special rate authorization was revoked by the Postmaster because it did not appear that the primary purpose of C.M., Inc. was religious within the meaning of the definition in postal regulations.

The Church of Many Mansions in Santa Monica, Calif., is exempt from payment of Federal income tax, as a religious organization, under Section 501(c)(3) of the Internal Revenue Code. It was originally authorized to mail at the special third-class rates. The Postal Service subsequently found that there were no religious worship services. It was a "Christian Singles Listing Service", like a dating bureau. The Postal Service asked the organization for evidence to justify the special rate authorization and when this information was not provided, the authorization was revoked by the Postmaster at the Los Angeles Mail Classification Center.

The Union Gospel Press in Cleveland, Ohio, was authorized to mail at the special second- and third-class rates as a nonprofit religious organization. After investigation, the Internal Revenue Service ruled that the organization no

longer qualified as tax exempt because of abrupt increases in the salaries of top personnel, large accumulated profits, and because it was in direct competition with a number of commercial publishers. The special third-class authorization was revoked by the Postmaster at Cleveland, Ohio, and the special second-class authorizations for several publications were revoked by the Director, Office of Mail Classification.

Three organizations (National Association of Chiefs of Police, American Public Safety Officers Association, Inc., American Law Enforcement Officers Association) as well as at least five similar organizations, were organized by two men in Miami, Fla. These organizations are exempt from Federal income tax under Section 501(c)(8) of the Internal Revenue Code as fraternal. They were authorized to mail at the special third-class rate as nonprofit fraternal organizations. However, a review of current operations indicated that these organizations were not organized and operated as fraternal organizations within the meaning of postal regulations. In addition, it appeared that all of the organizations established by the two operators were designed to provide income through commercial enterprises which they also operated. The special rate authorizations of these three organizations have been revoked by the Postmaster at the Miami, Fla., Mail Classification Center.

Senator STEVENS. Have you got any coordination with IRS on that? It would seem that IRS would be a little interested in it, too?

Mr. BOLGER. Yes, and our coordination is to present these incidents to IRS. We will, in the case we have going. This doesn't end it, of course.

Under the Administrative Procedures Act, if these people think we are doing them an injustice, they can come back with an administrative hearing.

Senator STEVENS. The GAO last week issued a report that was critical of the Postal Service's procedures for requiring and altering leased space. The report found that the Postal Service paid rents amounting to $2.4 million in 10 major leased facilities while the space was vacant during long periods of layout preparation and alteration; freely did not advertise its space requirements and obtained only limited competition in requiring leased space and often did not prepare independent cost estimates when contracting on a sole source basis for alteration.

Have you responded yet to this GAO report?

Mr. BOLGER. To my knowledge, we have responded. I will be glad to supply our response for the record or just respond to your question for the record.

Senator STEVENS. I would like to have an indication as to a summary of what your position is with regard to the GAO report.

[Information supplied by Mr. Bolger follows:]

THE POSTMASTER GENERAL,
Washington, D.C., April 7, 1982.

Mr. WILLIAM J. ANDERSON,
Director, General Government Division, U.S. General Accounting Office, Washington, D.C.

DEAR MR. ANDERSON: This refers to your draft report entitled "The Posal Service Needs to Improve Its Procedures for Acquiring and Altering Leased Space."

As the report notes, the Postal Service, working through its fifteen Field Real Estate and Buildings Offices (FREBO's) administers more than 29,000 leases in thousands of different communities. To manage such a program, our FREBO's must have some administrative latitude in the ways they go about acquiring and altering leased space, in widely differing circumstances, in order to meet changing operational needs.

For example, FREBO's try to avoid paying rent before occupying space, but in some local situations the competition for space is such that they cannot avoid doing so. (This has been particularly true in the New York FREBO area, which was included in your survey.)

Similarly, to obtain competition, FREBO's generally advertise when they want to lease space. However, there are sometimes valid reasons for their not doing so, as in various emergency situations, or when trying to acquire additional space in an already leased property.

FREBO's do obtain independent evaluations of the reasonableness of the cost estimates for lessor improvements, but in some cases, particularly for minor improvements, the evaluations may be informal and not preserved.

Though some errors in judgment or execution are inevitable in a leasing program as vast as ours, we do think our FREBO's are doing a good job.

However, we are not complacent about our performance and we welcome and will act upon your recommendations for program improvements.

As was mentioned in discussions with your staff, we do not concur with the recommendation to issue instructions requiring FREBO's to advertise our requirements in such technical detail as to insure that all space offered must fully meet our needs when rented, with payment to begin when the altered space is ready for occupancy. This is a practical impossibility and if we tried this approach we might well be criticized for artificially restricting competition. However, we will issue a formal instruction to our FREBO's advising them to avoid paying rent, wherever possible, for space prior to occupancy except in unusual circumstances and when supported by proper documentation.

Thank you for the opportunity to comment on this report.

Sincerely,

WILLIAM F. BOLGER.

U.S. POSTAL SERVICE,
Washington, D.C., May 4, 1982.

Our Ref: RB320: RPNicholson: mlb: 6400.
Subject: Procedure Modifications For Acquiring and Altering Leased Space.
To: Regional Directors, Real Estate and Buildings Department.

Recently the General Accounting Office (GAO) audited several of our FREBOs regarding procedures for acquiring leasehold interest and lessor improvements. Three problem areas were noted in the audit and specific recommendations were suggested to improve existing policies.

The audit revealed that several properties were leased in an "as is" condition and rent was paid for an extended period of time for the unoccupied space while alterations were being designed and accomplished. Existing policy emphasizes that rental payments begin when the property is available for occupancy by the Postal Service if at all possible. It is understood that in limited cases where competition for available space is acute, or a lessor refuses to lease space in other than its "as is" condition it may be necessary to pay rent while the improvements are being accomplished. This arrangement should only be considered as a last resort. In any case where the rent commences immediately upon acceptance of the Agreement to Lease, every effort should be made to expedite any and all alterations to effectively reduce the time lost between commencement of rent and occupancy of the space.

Additionally, the GAO report indicated that in the cases reviewed, public advertising for available space did not always take place. Present procedures set forth in the Real Estate Handbook, RE–1, Part 3–801.1 states, "Wherever the potential for competition exists, bids must be solicited for new agreements for postal space." Part 3–802 states, "Negotiation is to be used for acquiring leasehold interest in real property when it is impractical to secure competition." A follow-up review of the cases audited, by Headquarters staff, indicated that in most cases where leases were negotiated on a noncompetitive basis, appropriate procedures had been followed. Where lease of space is obtained by negotiation instead of competitive bidding, the real estate file must be documented to justify such action. It should also be noted when advertising for available space on a competitive basis, the file should contain the appropriate PS 7410 series form for advertisement, transmittal letters, newspaper articles or ads, and other related material. If competition in the market is questionable, public advertising should take place.

The GAO report also addressed postal procedures for securing alterations to leased properties by the lessor. Presently, the Real Estate Handbook RE–1, does not provide specific instructions on the development of independent cost estimates when contracting on a sole-source basis with lessors. Therefore, it is determined that in the future the Design and Construction Branch should be requested to provide a cost estimate prior to receipt of the lessor's proposal. If for some

reason the request does not go to the Design and Construction Branch until after receipt of the lessor's proposal, the amount of the proposal should not be provided to the Design and Construction Branch.

The Real Estate Handbook RE–1, will be modified to reflect the above procedural changes as soon as possible.

DAVE W. DOGAN,
Director, Office of Real Estate,
Real Estate and Buildings Department.

Senator STEVENS. Again, is there any indication that there ought to be any specific legislative changes to deal with this question of leased facilities?

Mr. BOLGER. I don't think so, Senator. I think we approach the leasing of the space we require generally on a sound basis. I am not saying that we don't make some mistakes. We have about 40,000 facilities around the country. Most of them are leased, and we have various areas of responsibility for our leasing activities.

I will have to look at that very, very closely. Something could have gotten out of kilter. We will have to shore it up.

Senator STEVENS. I do think the impact of the report which indicates that your people are leasing facilities long before they have made preparation to utilize them warrants some attention.

Mr. BOLGER. It sure does.

Senator STEVENS. I want to submit to you some questions from Senator Chiles, Senator Pryor, and Senator Levin so that you can respond to them for the record, if you will, please.

Mr. BOLGER. I sure will.[1]

Senator STEVENS. The Direct Mail Marketing Association made a study that showed that 15 percent of third-class mail is not delivered. Is that your finding also?

Mr. BOLGER. Senator, they really got my attention on that report. I read it very carefully, and I formed a group to look into that.

We are not going to quibble with the 15 percent, the 10 percent. The thing I found is that there was properly addressed mail that wasn't being delivered. We have got problems in our system when that happens. We also have additional costs.

They sure got my attention on this report. We are following through with it with them and others to make sure that we correct that situation.

It happens at the delivery office, so it is easier to concentrate on getting it corrected. I talked to our people that have formed a test group, and I think we are going to make progress.

We will police that and eliminate that type of inefficiency. That is totally inexcusable. That is employees who are just not doing their job and management that is not correcting the improper activities of the employees.

Senator STEVENS. I thought the conclusion of the report was very serious, especially from the point of view of possible loss of business because of nonperformance and thus reduced income, and your presentation shows how dependent you are on cash flow. I think, if this is not taken care of, it will have a decided impact on your revenue.

Mr. BOLGER. One thing we have done is, we surely share that with our union leaders and our management organizations, their representatives. They need to know that these things are going on, and

[1] See p. 38.

we are getting the reports. They need to work with us to help straighten it out.

Senator STEVENS. I notice another GAO report criticized the Postal Service for lack of proper controls over unscheduled employee absences which were paid.

I don't quite understand how they can be paid for unscheduled absences. Don't you have a contract that says if a person is absent without leave, he doesn't get paid?

Mr. BOLGER. When they talk about unscheduled absence, there are two types in the report. One was leave without pay, and they talked about that, and then there were other unscheduled absences. A person scheduled to report to duty at night calls in and says they are ill and they go on sick leave if the sick leave is authorized, or they go on emergency annual leave. That was part of the report, too.

What they were talking about in that part of the report, when there are unscheduled absences, is we have got to resort to using people on overtime, which is premium pay. We have to get people off schedule and to work on overtime to compensate for the absence we are experiencing.

We are looking into that report: One, they took a study from three offices and extrapolated from there. We are following through to see if their assumptions are correct; and two, to follow through in other offices to see if their extrapolation theory is correct. It is not a good situation.

I understand where they are coming from with that report, and they are absolutely right. We have those types of unscheduled absences with or without pay. It is a costly figure for the Postal Service.

Senator STEVENS. The unscheduled leave was 50 days a year—40 of which were paid—in Chicago, Dallas, and Philadelphia.

Mr. BOLGER. Again, they are talking unpaid annual leave, paid sick leave. It is approved after the fact, but the absence occurred on an emergency basis. Then we have the average 10 to 12 days of leave without pay. They formed these people in these offices.

It certainly is something you have got to pay attention to and dig into it and correct it and do something about it.

Senator STEVENS. It might be less expensive to have sort of a troubleshooter employee available like we have with the 13th juror on a jury. It costs less to pay the 13th juror than it does to try the case again.

Mr. BOLGER. You know, we actually have that system. We built in an absence factor on a tour of duty, when we noticed a certain amount of scheduled vacations or staffing in that office.

We fill that in. This is over and above what they are talking about.

Senator STEVENS. The postal employees receive a bonus if productivity exceeds 3.5 percent.

Do you think that is going to occur in the first year?

Mr. BOLGER. First of all, that is not quite accurate. That is the general conception of what has happened. In our labor contracts, there is a productivity bonus feature. It doesn't automatically trigger additional compensation when the productivity rate gets to 3.5 percent or better. It is a very complicated formula. I think rather than try to discuss it here, I will submit for the record the formula that we use. But the answer is that I do not think there will be any bonus for productivity increases for this calendar or fiscal year.

It is not automatically triggered at 3.5 percent.

[The information referred to follows:]

The contract provides that when productivity exceeds our planning minimum of 3 percent, a rather complex formula is triggered that applies to the dollar value of our productivity in excess of 3 percent. If the application of the formula results in a dollar figure exceeding a set amount, a bonus reflecting the difference would be paid.

Senator STEVENS. I see.

Mr. BOLGER. I have the expert with me who has that formula. It might take us a few hours to get him to explain it to us.

Senator STEVENS. What are we going to do about this TV ad I keep seeing, the Federal Express ad? It has about as much taste as Republican ads that view Tip O'Neill and President Carter.

I am glad we dropped them. This has about the same impact on me, as a viewer, where they show postal employees in an unfavorable light: a guy climbs to the top of the stairs and the post office is closed or something.

You have seen them, I am sure.

Mr. BOLGER. I sure have.

Senator STEVENS. My staff tells me you protested to Federal Express. What did they say?

Mr. BOLGER. I haven't had a reply from Fred Smith yet. I guess he might have sent it Federal Express. [Laughter.]

I haven't seen them on the air, but I understand they took the ads off the air. Hopefully, that is the end of that.

Senator STEVENS. Have they taken them off?

Mr. BOLGER. I think so.

Sentor STEVENS. That is good. I was disappointed. They were with us on the battle with ZIP + 4, but that ad annoyed me.

Mr. BOLGER. It annoyed me, too. It doesn't properly depict at all the vast number of our employees. I am not an ostrich, either. I don't stick my head in the sand.

Senator STEVENS. There may be some of them out there.

Mr. BOLGER. Very few. I hope people don't bet on the conception that people in the post office are like that. They aren't like that at all.

Senator STEVENS. I am pleased with that young man you sent up to Fairbanks, Ed Hayes. There literally wasn't a day that went by prior to the time he went up there to straighten out that post office that we didn't have a complaint.

We had a tremendous turnover rate in that post office. He has done a tremendous job, an overwhelming job. In fact, as you know, a testimonial dinner was given him by the business community for his efforts in that short period of time.

I commend you for being able to locate young men like that. I understand he wants to stay in Fairbanks. It is a great place. That is where I, unfortunately, left once, but it is good to see that you do have troubleshooters of that kind who can step in and straighten out an area that is going awry.

I hope if there are some areas like Fairbanks or employees as the Federal Express ad implies, that we can ferret them out and eliminate them. We do not need stereotypes of inefficient or uncaring individuals that might be found that can be used as an example of poor postal service or poor postal employees.

I really don't think it is justified. The postal service is doing a great job, as I have said.

Mr. BOLGER. Thank you.

Senator STEVENS. I am sorry that we don't have more of our colleagues here. I have submitted their questions to you, and, hopefully, you will respond to those.

Submit the responses to the committee, if you will, so we can incorporate them in the record.

Mr. BOLGER. We certainly will.

[Responses to written questions submitted by Senators Chiles, Pryor, and Levin follow:]

RESPONSES TO WRITTEN QUESTIONS SUBMITTED BY SENATOR CHILES

Question 1. Can you please give me an up-date of the Postal Service's involvement in supporting stamp vending machines in commercial facilities?

Answer. Current Postal Service policy prohibits placement of stamp vending equipment in any retail store which has a private stamp vendor's equipment on the premises. Deployment of individual vending machines in non-postal locations will represent a very small percentage of the new vending sites. We are continuing to deploy full Self-Service Postal Centers in such locations as shopping centers and office complexes, as we have since the late 1960's.

Question 2. How many vending machines has the Postal Service contracted to purchase during the next five years?

Answer. We will go to contract on 3,000 booklet vendors, 2,000 changers, and 500 stamp vendors by the end of calendar year 1982. Preliminary plans call for purchases of an additional 6,000 booklet vendors, 5,000 changers, and 1,000 stamp vendors in fiscal year 1983 for delivery in fiscal year 1983–1984. It is difficult to project beyond that point. Most of the equipment purchased over the next 2 to 3 years will be used to replace obsolete machines which are no longer providing the high level of service our customers need.

Question 3. It is my understanding that the Postal Service has contracted with chains of stores in Houston, San Francisco, and Jackson, Mississippi, to place vending machines in their stores. Is this list of locations accurate or have additional cities been added? What will the Service do when other stores in these locales request similar equipment?

Answer. Postal Service vending equipment is installed in supermarkets and/or drug stores in Jackson, Mississippi; Oklahoma City, Oklahoma; and Houston, Texas. There is also a single vending site in a drug store in San Francisco. Subject to our prohibition on going into stores which already have private stamp vending equipment, we are continuing our longstanding policy of placing equipment in areas where considerable customer demand has been identified. In most cases such areas need the services provided by a full Self-Service Postal Center, rather than an individual vendor. However, in every instance, the possible location is evaluated for its value to our customers and its revenue potential. We have never supplied equipment simply because a store or building manager requested it. In fact, we always reserve the right to relocate machines which do not live up to our expectations. This has been done very frequently with Self-Service Postal Centers.

Question 4. What are the budget implications of such expansion of the Postal Service's stamp vending machines in commercial areas, including the cost of installation, servicing and monitoring of machines scattered throughout a locality in commercial outlets?

Answer. We have had Self-Service Postal Centers in non-postal locations since 1960, so the current situation is nothing new. It is true that travel time can be a significant factor in some cases, but we believe that, on the whole, our Vending Program reduces our retail costs. This occurs when a number of high volume vending sites combine to divert enough customers from our manned facilities to permit a reduction in work hours.

Question 5. It is my understanding that the Postal Service is still considering an arrangement with the private sector to assist the Postal Service with vending stamps in nonpostal areas. What is the status of this arrangement?

Answer. We are presently conducting a test of face-value vending by a private stamp vendor, who is compensated for the loss of his usual mark-up by means

of a sales fee. Under the terms of the test, which is set to run for 6 months, the vendor uses equipment he has in place to sell stamps at face value, and is paid a monthly fee based on his sales. No evaluation of the results will take place until the end of the test period this Fall.

RESPONSES TO WRITTEN QUESTIONS SUBMITTED BY SENATOR PRYOR

Question 1. How are local postmasters selected?

Answer. As the first step in the postmaster selection process, a review committee is designated by District Managers for vacancies at EAS–22 and below, and by Regional Postmasters General for vacancies at EAS–24 and above. A committee is composed of at least three members, all of whom should have a reputation for being fair and objective. They must also fully understand the equal employment opportunity program objectives of the Postal Service and the need to achieve those objectives, consistent with the requirement to recommend applicants who best meet the position requirements. The review committee recommends three to five candidates to the Sectional Center Manager. Either the committee or the Sectional Center Manager must interview individually all candidates recommended by the review committee and all eligible candidates from the vacancy office, whether or not recommended by the review committee.

Sectional Center Managers make a recommendation for every postmaster vacancy. The Sectional Center Manager is charged with recommending the individual who best meets the requirements of the position. That individual must possess knowledge, skills, and abilities of such high quality as to strongly indicate a high probability of successful performance in the position. In reaching a decision, the Sectional Center Manager considers documentation in the selection file concerning the performance experience, background, and potential of the candidates, as well as information obtained through interviews with the candidates.

To support his/her recommendation, the Sectional Center Manager prepares a comparative analysis of the knowledge, skills, and abilities of the candidates. The recommendation is forwarded for concurrence through the District Manager and Regional Postmaster General for a decision by the Postmaster General.

Question 2. Who makes final decisions on such selection?

Answer. I do.

Question 3. What consideration is given to local candidates in the process of selecting a postmaster?

Answer. Noncompetitive consideration is given to any career employee of an EAS–11 office who satisfactorily meets the basic requirements and qualification standards. Time-in-grade restrictions (employees must have been in their present position either 6 months or 1 year, depending on level of vacancy) do not apply to local candidates. All local candidates must be considered by the Sectional Center Manager when making a recommendation for appointment. Finally, local candidates appointed to postmaster positions who reside outside the delivery/service area of the office are not required to move unless, in the opinion of the Regional Postmaster General, the employee lives too far away to reasonably fulfill community relations responsibilities.

Question 4. Are the views of the local community considered in the selection process? If so, how?

Answer. Title 39, United States Code, specifically prohibits postal officials from entertaining unsolicited recommendations of individuals for appointment or promotion to the Postal Service. Thus, the views of the local community are not considered in the selection process. However, the needs of the community are considered by the Sectional Center Manager in making his recommendation. For instance, in communities where there are unique needs or problems, the Sectional Center Manager would recommend the candidate best equipped with specialized skills or knowledge to address those problems. In offices where rural routes are to be extended or city delivery is to be instituted, the recommended candidate should possess rural/city delivery experience to enable the candidate to bring about swift and orderly implementation of the needed changes. In offices where there are customers who do not speak or write English, linguistic and social skills of the candidates would be important.

Question 5. I am told that in fiscal year 1981, 41% (only 29% in fiscal year 1982 so far) of postmaster appointments made were local candidates. Are these figures correct?

Answer. Yes. At the end of Postal Quarter III, fiscal year 1982, 2,268 postmaster appointments had been announced. Of that figure, 688 (or 30.3 percent) were local candidates. It should be noted, however, that there are many vacancies for which there are no local candidates. In the third quarter of fiscal year 1982, the local candidate was appointed in 203 out of 594 total vacancies. No local candidate applied for 232 of the remaining 391 vacancies.

Question 6. Where does authority exist for giving special consideration to local candidates in the selection of postmasters. (Please include copies of regulations, guidelines, memoranda or statutes which exist governing this process.)

Answer. Handbook P–11, Personnel Operations, Subchapter 540, as revised. Postal Bulletin 21299, dated May 21, 1981, contains these regulations and will be provided for the record.

P-11 Revision

SELECTION POLICIES FOR NON-BARGAINING UNIT POSITIONS

The following several pages introduce a revised Subchapter 540 of Handbook P-11, *Personnel Operations*. The principal change is the incorporation of postmaster selection procedures.

These pages should be removed and filed in Handbook P-11. They will be incorporated into the P-11 by a future transmittal letter. This information supersedes Subchapter 540, TL-7, P-11 (10-4-80), and Section 355, *Employee and Labor Relations Manual*, published as Special Postal Bulletin 21208 (9-10-79).

These changes are effective immediately except for postmaster vacancies at EAS-18 through 27 where the board has already been scheduled.

The major changes to postmaster selection procedures are:

Elimination of Regional and National Selection Boards

Review committees are now designated by District Managers for vacancies through EAS-22, and by Regional Postmasters General for EAS-24 and above.

Recommendation of Candidate by Sectional Center Manager

Sectional Center Managers make a recommendation for every postmaster vacancy. They are required to prepare a comparative analysis of all recommended, as well as all local candidates. The complete file is forwarded through the District Manager and Regional Postmaster General for decision by the Postmaster General.

Initial Area of Consideration is Realigned

Postmaster vacancies through EAS-15 will be posted MSC-wide; EAS-18, District-wide; EAS-20 through 22, Region-wide; and EAS-24 and above, Service-wide.

Postmaster selection procedures will continue to differ from non-bargaining selection procedures in the following areas:

1. The Postmaster General appoints all postmasters.
2. The residency requirement for newly appointed postmasters remains in effect.
3. Candidates are required to sign Form 2459, *Acceptance Letter*, which includes the agreement to relocate if necessary.
4. Local eligibles who do not want to be considered for the vacancy will be requested to sign a declination statement.
5. Employees are restricted to applying for no more than three postmaster vacancies at one time.
6. Outside recruitment for positions at EAS-11 and above must be approved by the Assistant Postmaster General, Employee Relations Department.
7. Employees who serve as OIC during a current vacancy will be ineligible for appointment to postmaster positions at EAS-13 and above.
8. Vacancy files will include information on the community, as well as budget and organizational information on the office.
9. Postmaster vacancies will be published in Regional Bulletins. Vacancies advertised Service-wide will be on Form 990, issued by Headquarters Personnel Division. Notice 1 will still be used for outside recruitment of postmasters.
10. Qualified local career candidates for EAS-11 offices may be appointed non-competitively.
11. Local candidates must be considered by the Sectional Center Managers.
12. Inspection Service reports will still be required on all non-postal candidates for postmaster positions.
13. Form 2451, *Merit Evaluation* (where available) will continue to be part of the package for postmaster vacancies at EAS-18 and higher.
14. Only the Postmaster General may grant exceptions to the procedures.

Current postmaster vacancies will be handled as follows:

1. EAS-18 and above:

a. If the Regional Management Selection Board is already scheduled, process under old 355, ELM. No regional boards should be scheduled after May 29, 1981.

b. If the Regional Board is not yet scheduled, and the selection package is at the Region, it should be returned to MSC for processing under new 540. The recommendations of the pre-nomination review board will suffice for the list of three to five candidates recommended by the review committee. The SC Manager will interview the three to five candidates recommended by the pre-nomination review board, plus any local eligible qualified candidates. The SCM will prepare a comparative analysis of each candidate, then forward the selection package in duplicate with a recommendation, through the District to the Region.

c. Selection packages pending RPMG appointment of pre-nomination review board under old 355, ELM, will be returned to District Manager, who will appoint a review committee (for EAS-18 through 22). For EAS-24 and above, the RPMG will appoint the review committee. These cases will be processed under the new 540.

2. EAS-15 and below:

a. Vacancies closing May 29 or earlier will be processed under old 355, ELM.

b. Vacancies closing after May 29 will be processed under new 540.

540 Non-Bargaining Unit Positions

541 Scope

541.1 Coverage

This subchapter covers selection for all non-bargaining unit positions, except for the following:

a. Positions in the Postal Career Executive Service (PCES). See ELM 380.

b. Positions filled under the Initial-Level Supervisor Selection Program. See subchapter 530.

c. Positions in special Service-wide or region-wide programs, such as MAS Master Instructor, Attorney Honors Program, Management Associate, and Management Trainee.

d. Postal Inspector or Security Force supervisory positions.

e. Executive secretarial positions to Regional Postmasters General.

f. Positions in USPS Headquarters and its administrative supporting facilities (ASFs). Instructions on filling non-bargaining unit positions in those organizations are published in Headquarters Circulars.

541.2 Requests for Exceptions

Any request for an exception to these policies and procedures must be forwarded through management channels to the APMG, Employee Relations Department, for consideration. Exceptions to policies and procedures for postmaster selection may be approved only by the Postmaster General.

541.3 Employee Relations Responsibilities

Employee relations managers are responsible for assuring that selecting officials, review committee members, and other managers understand the meaning, use, and intent of these policies and procedures; and for reviewing vacancy files to assure their completeness.

542 Policies

542.1 Reviewing Need for Position

When a vacancy occurs or is anticipated, the managers concerned determine the need for filling the position. If the decision is to fill the vacancy, the officials responsible for administering these procedures are expected to act expeditiously, avoiding unnecessary delays at any stage of the process. If the position has to be filled on an interim basis, see ELM 353.3 and section 544.8 of this subchapter. The RPMGs authorize the filling of vacant postmaster positions existing within their respective regions.

542.2 Merit Selection

Non-bargaining unit positions are to be filled from within the Service whenever possible. Every possible attempt will be made to select the available employees who best meet the requirements of the positions. Employees will be considered and selected without regard to race, color, sex, religion, age, national origin, political affiliation, marital status, physical or mental impairment (if the position may be efficiently performed by a person with that physical or mental impairment), or any other non-meritorious factor or consideration. *Note:* The term "best meets" means that the review committee or selecting official should choose an individual whose knowledge, skills, and abilities are of such high quality as to strongly indicate a high probability of successful performance in the position.

542.3 External Recruitment

.31 Authorization. When recruitment from outside of the Service is considered necessary, the office with the vacancy must submit a justification to the appropriate official listed in Exhibit 542.3. This official must give approval before outside recruitment (including advertising or contacting applicants) is begun. The use of contract services to circumvent restrictions on recruitment is not permitted. For postmaster selection, approval for outside recruitment is:

For positions at:	*Obtain approval from:*
EAS A–E	District Director, E&IR.
EAS–11 and above	APMG, Employee Relations (through management channels).

.32 Pre-employment Medical Examination. All new employees must receive a pre-employment medical examination before appointment to determine whether they meet the medical requirements of the Postal Service. Failure to meet the medical requirements of the position will disqualify the selected individual for appointment.

.33 Postmaster Selection

.331 For a postmaster vacancy ranked at EAS Grade A through E, or immediately upon receipt of written notification from the RPMG that the APMG, ERD, has authorized in writing the solicitation of applications from

For Positions at:	In:	Obtain approval from:
EAS–13 and below	Associate offices	Sectional Center Manager
	MSCs; other organizations reporting directly to district office	District Director, E&LR
	Regional headquarters; organizations reporting directly to regional headquarters	Regional Director, E&LR
EAS–14 and above	All offices	APMG, Employee Relations (through management channels)

Exhibit 542.3. Approval for Outside Recruitment

outside the Postal Service for a postmaster vacancy ranked at EAS Grade 11 or higher, the SCM must:

a. Post Notice 1, *Postmaster Vacancy,* in a conspicuous place in the lobby of the vacancy post office for a period of ten (10) calendar days. At the expiration of the required 10 calendar days posting period, the officer-in-charge (OIC) of the vacancy post office returns the Notice 1 to the SCM appropriately endorsed to indicate the actual inclusive dates of posting. Notice 1 must include a statement that applications from persons outside the Postal Service are restricted to those individuals who, on the date they submit their applications, actually reside within the delivery or service area of the vacancy post office.

b. Publicize the vacancy and the invitation to submit applications through notices to any organizations and publications in the community served by the vacancy post office.

c. Provide the OIC at the vacancy post office with an adequate supply of Forms 2591, *Application for Employment,* Form 2181, *Authorization for Release,* and self-addressed penalty envelopes for use by the public in the submission of application. At the expiration of the required 10 calendar day posting period, the OIC of the vacancy post office returns any unused forms and self-addressed penalty envelopes to the SCM.

.332 Individuals outside the Postal Service interested in applying for a vacant postmaster position posted for outside recruitment must complete Forms 2591 and 2181 and submit them with the necessary proof of veteran preference, if applicable, in the pre-addressed penalty envelope provided for that purpose. The SCM allows a reasonable time, but not less than three days after receipt of the posted Notice 1 (see 542.311a) from the OIC, for receipt of any applications filed on the last day of the required posting period.

.333 *Veteran Preference*

a. Applicants from outside the Postal Service are responsible for providing the Postal Service with necessary documents to substantiate a claim for any type of veteran preference. (See Section 240 of this Handbook for further information on veteran preference.)

b. The register of eligibles, established in accordance with 542.324, indicates the type of veteran preference to which each applicant is entitled by the proper endorsement beside the name of the candidate (see 241.62).

c. A veteran may not be passed over and a non-veteran ranking lower on the register of eligibles selected without proper justification. Such justification must be submitted prior to selection to the SAPMG, E&LR Group for disposition.

.334 *Eligibility, Qualification and Suitability Investigation*

a. As soon as possible after expiration of the time allowed for receipt of applications, the SCM forwards to the Regional Chief Postal Inspector all of the forms and necessary supporting documents received, the Notice 1 that was posted at the vacancy post office, and copies of any other notices publicizing the vacancy, together with a request that an eligibility, qualification, and suitability investigation be made of each individual applying and that a register of eligibles be established.

b. The register of eligibles will be constructed as follows:

Group 1. All qualified and suitable applicants entitled to "CP" preference, listed in order of their relative qualifications.

Group 2. All other qualified and suitable applicants listed in order of their relative qualifications.

c. Upon completion of the investigation requested by the SCM, the Regional Chief Postal Inspector forwards to the SCM the following:

1. The Inspection Service's Investigative Report of the eligibility, qualifications, and suitability of each applicant.

2. The register of eligibles established by the Postal Inspectors incident to the investigation of applicants.

3. The original documents furnished by the SCM in accordance with 542.324a.

.335 A recommendation to the Postmaster General for an appointment from outside the Postal Service must be accompanied by specific justification statements from the RPMG.

543 Noncompetitive Selection Procedures

543.1 Priority Consideration

543.11 In filling positions, it is Postal Service policy to consider employees in the following groups (in the sequence listed), before using the competitive procedures in 544. These employees may be selected non-competitively, provided they meet the position requirements. (See 543.3 when these employees apply or are nominated for an *announced* vacancy.)

a. Assignment of employees who were previously granted specific retreat (or return) rights.

b. Assignment of employees occupying abolished positions, unless assignment is to a higher grade position. ELM 354 describes the assignment procedure, including the area of employee consideration.

c. Assignment of employees serving in lower grade positions to their previous (or intervening) grades or positions from which they were reduced after March 3, 1973. This provision does not apply to a reduction which was for disciplinary reasons or which was initiated at the request of the employee. It does apply when an employee's position was abolished and management offered the employee a lower grade position, which the employee voluntarily accepted. ELM 354.28 and 354.44 describe the assignment procedure.

d. Assignment of employees serving in lower grade positions with a higher (saved) grade to positions at the saved grade (or intervening grade). Assignment of such employee is governed by the same procedure as that described in ELM 354.28 and 354.44.

e. Reassignment or promotion of MAS Master Instructors who are at or near completion of their 2-year assignment with the Postal Service Training and Development Institute. The gaining installation and PST&DI may request the APMG, Employee Relations Department, to waive the 2-year requirement in the best interest of the Postal Service. Regional Postmasters General are provided current information on the qualifications and availability of all eligible MAS Master Instructors. Promotion without competition is limited to positions which are not more than three grades above the individual's permanent grade.

f. Reassignment or promotion of management associates, management trainees, and trainees in other Service-wide or region-wide programs who have successfully completed their development programs. Conditions and limitations on the noncompetitive promotion of these individuals are described in the respective program issuances. Each regional headquarters has current information on the qualifications of associates and trainees assigned within that region.

.12 For postmaster vacancies filled noncompetitively under 543.11, the SCM includes a recommendation before forwarding the application through the District Manager and RPMG to the Postmaster General for consideration. If any of these officials does not recommend the noncompetitive selection, the request need not be forwarded to the next level.

.13 For postmaster vacancies EAS–11, the SCM must initially consider noncompetitively any career employee who is on the rolls of the vacancy post office and who satisfactorily meets the basic requirements and qualification standards.

543.2 Reassignment and Voluntary Reduction

The competitive procedures described in 544 do not have to be followed when management initiates or an employee requests a reassignment to a position at the same grade or when an employee voluntarily accepts or requests, in writing, a position at a lower grade. (See 543.3 when an employee applies or is nominated for an *announced* vacancy.) The position may be located anywhere in the Postal Service. Such an action may be taken at any time without regard to the sequence in 543.11. However, higher-level approval of selections, if required by 544.63, does apply. (This section does not apply to Postmaster vacancies.)

543.3 Noncompetitive Selection for Announced Vacancies

.31 General. An employee who is eligible for selection noncompetitively under 543.1 or 543.2 may apply or be nominated for a position as a result of a vacancy announcement issued under the competitive procedures in 544. Noncompetitive application or nomination may be made for any position and location for which the employee is eligible for noncompetitive consideration. *Note:* Except as provided in 543.11, postmaster vacancies normally are not filled noncompetitively.

.32 Procedure

.321 The employee or nominating manager is responsible for requesting, in an accompanying letter, noncompetitive consideration for the position and for explaining the basis for that request. The office receiving applications refers the request and application to the selecting official for noncompetitive consideration before a review committee is convened.

.322 The selecting official may select the employee at that time or may defer a decision until he or she has had an opportunity to consider the candidates recommended by the committee. There is no requirement that the employee be selected.

.323 At the discretion of the selecting official, the committee may consider, in competition with other applicants for promotion, the application of an employee who applies or is nominated for an announced vacancy at the employee present grade or a lower grade.

544 Competitive Selection Procedures

544.1 General

.11 Area of Consideration and Employee Categories

.111 When a position is not filled through any of the preceding noncompetitive procedures, it will be filled competitively through management nomination and employee application in response to a vacancy announcement. Exhibit 544.1 defines the minimum area of consideration, and the organization responsible for preparing the vacancy announcement for distribution to all organizations and installations within the area of consideration.

.112 As an exception to Exhibit 544.1, RPMGs may nominate employees from any location in the Postal Service for any vacancy in their region, provided those employees are considered in competition with candidates within the area of consideration.

.12 Eligibility

.121 Only career employees are eligible for promotion. Employee eligibility under the competitive procedures is based on the person's permanent position and grade (including saved grade), and not on a part-time, *ad hoc*, or temporary assignment (detail) or temporary promotion to a different position or grade.

.122 An employee is not eligible to apply or be nominated for promotion under the competitive procedures to a position at EAS–17 or above if the employee has been promoted (or initially appointed to the Postal Service) within the year immediately preceding the closing date of the vacancy announcement. An employee is not eligible to apply or be nominated for promotion under the competitive procedures to a position at EAS–16 or below if the employee has been promoted (or initially appointed to the Postal Service) within the 6 month period immediately preceding the closing date of the vacancy announcement. A postmaster at any level is not eligible for promotion or reassignment until one year from the date of appointment to the postmaster position. *Exception:* These restrictions do not apply:

a. When the appropriate official as listed in 542.3 determines that outside recruitment may be required.

b. To Postal employees of field installations (below the District office level) applying or being nominated for positions in their present installations.

c. To employees described in 543.1c and *f*.

d. To an employee whose only promotion within the restricted period resulted from re-ranking of a position.

544.2 Vacancy Announcement

.21 Before a vacancy announcement is issued, an appropriate area of employee consideration must be chosen. Exhibit 544.1 lists the *minimum* area for each vacancy. If the minimum area is not expected to produce three or more applicants who meet the position requirements, the initial announcement may be opened to an expanded area, so that a subsequent reannouncement should be unnecessary. (See 544.4 for instructions on the expanded area of consideration.)

.22 The announcement must specify the categories of employees eligible for consideration for the vacancy, as listed in Exhibit 544.1 and its footnotes.

.23 The vacancy announcement is posted in the appropriate Regional Bulletin for postmaster vacancies

Vacancy Grade	Minimum Area of Consideration	Employees Eligible*	Organization Preparing Vacancy Announcement
All Organizations and Installations			
EAS-23 and above	Postal Service wide	All EAS, RDS, PDC, and ADPC not more than 6 grades below vacancy (1) or 3 postmaster levels **	USPS Headquarters.
EAS-20 thru EAS-22	Region wide (2)	All EAS, PDC, and ADPC not more than 6 grades below vacancy (1) or 3 postmaster levels **	Regional Headquarters.
EAS-17 thru EAS-19	District wide (2) (3)	All EAS, PDC, and ADPC not more than 6 grades below vacancy (1) or 3 postmaster levels **	District Office.
Regional Headquarters, Regional Headquarters' Field Offices, and District Offices			
EAS-1 thru EAS-16	Organization with the vacancy and any USPS Headquarters organization or field unit, Regional Headquarters organization or field office, or District office within the local commuting area.	All	Organization with the vacancy.
All Other Organizations and Installations			
EAS-14 thru EAS-16 and postmaster positions A-16.	Management Sectional Center wide (2) (4).	All	Installation with the vacancy. Exception: MSC prepares announcements for vacancies in its Associate Offices.
EAS-1 thru EAS-13	Installation wide (2)	All	Installation with the vacancy.

*See Section 544.1 for general limitations on employee eligibility.
**Applies only to postmaster applicants for postmaster vacancies.
(1) May be opened to employees at lower grades within the area of consideration if experience indicates that sufficient applicants who meet the position requirements are not available using the six-grade limitation.
(2) Includes all eligible employees whos permanent duty stations are located within the geographic boundaries of the area of consideration, regardless of the employee's employing organization. (Exception: Employees of USPS Headquarters whose permanent duty stations are in the Washington, DC area are excluded from this minimum area of consideration.)
(3) For EAS-17 vacancies only, the District Manager may reduce the area of consideration to Management Sectional Center wide. For EAS-17 thru EAS-19 vacancies in Regional Headquarters and its Field Offices, the minimum area of consideration is Region wide, and Regional Headquarters prepares the vacancy announcements.
(4) For a position in a Postal Employee Development Center (PEDC), all employees in the PEDC's service area are eligible for consideration.

Exhibit 544.1. Area of Consideration & Employee Categories

at EAS-22 and below, and on Form 990 or in the Regional Bulletin for all other non-bargaining unit positions.

.231 Regional Bulletin lists of postmaster vacancies include:

a. Name and location of the post office where the vacancy exists.

b. EAS grade of the vacant position. (The grade should be verified by the SCM before publishing the vacancy.)

c. Closing date for receipt of applications.

d. Name of the District and Management Sectional Center in which the vacancy is located.

e. Statement of the area of consideration and the employees eligible for consideration.

.232 The vacancy announcement (Form 990) must, as a minimum, include the following information:

a. Identification of position (title, occupation code, grade, salary range, organization, finance number, and location).

b. Statement of the area of consideration and the employees eligible for consideration.

c. Brief description of the duties of the position.

d. A list of the requirements of the position, i.e., the knowledge, skills, and abilities which are essential for successful job performance. If a qualification standard for the position has been published in Handbook EL-302 *Qualification Standards—Non-bargaining Unit Positions*, the list must also summarize the requirements in that standard. If there is no Handbook EL-302 qualification standard for the position, list the kinds of experience, training, and/or education which would provide an individual with the necessary knowledge, skills, and abilities. Contact the Regional Employee Relations Division for assistance. *Do not* use Section IV of the position description or the qualifications standards in Personnel Handbook X-118B, *Qualifications Standards for Postal Field Service*, for this information.

e. If appropriate, a statement that the review committee or selecting official may later request applicants to submit written samples of their past work (as described in 544.541 and 544.613).

f. Application requirements as explained in 544.3 below.

g. Closing date for receipt of applications and address to which applications are to be submitted.

.24 Vacancy announcements for postmaster positions are forwarded to the region for publishing. A listing of each postmaster vacancy through EAS-22, which the RPMG has authorized to be filled is published in the appropriate regional bulletin with a closing date for the receipt of applications set for 15 days after the date of publication of the bulletin in which the notice of the vacancy first appears. Exception: For EAS-11 postmaster vacancies the local career candidate (if any) may be appointed noncompetitively, and the vacancy need not be advertised.

.25 All installation heads assure that a current list of postmaster vacancies is posted on employee bulletin boards in all postal installations under their jurisdiction. Each RPMG assures that regional headquarters personnel have access to the vacancy list, and a copy is forwarded to General Manager, Headquarters Personnel Division for posting to Headquarters employees. Postal management must make information readily available to all employees so they know what the eligibility and qualification requirements are for each vacancy on the list, and how to make known their interest in being considered.

.26 A vacancy does not have to be announced if the same or an identical vacancy was announced previously and fewer than 60 calendar days have elapsed since its closing date. The two vacancies must have the same position title, occupation code, grade, location, tour (where applicable), and position requirements. The selecting official has the option to use the previous applications received. If the review committee has already completed its deliberations, the selecting official has the option to select for the second vacancy from among the candidates recommended by the committee for the first vacancy, provided at least three candidates were recommended.

544.3 Application Requirements

.31 To apply or be nominated for an announced vacancy, an eligible employee completes Form 991-A, *Application for Promotion or Assignment*, and the front side of Form 991-B, *Supplement to Application for Promotion or Assignment*. The employee's immediate supervisor and the next-higher level supervisor complete and sign the recommendation on the reverse side of Form 991-B. A copy of the completed supervisors' recommendation is then made available to the employee upon request. Forms 991-A & B are forwarded to the address specified in the vacancy announcement, for receipt by the stated closing date.

.32 An incomplete application, including one with out recommendation of both supervisors, may cause the employee to be eliminated from consideration by the review committee, unless the employee or the supervisor provides an explanation which is acceptable to the committee. If the employee and one of the supervisors are applicants for the same vacancy, that supervisor does not prepare a recommendation, but does provide an explanation on the Form 991-B.

544.4 Expanded Area of Consideration

.41 Optional Expansion

.411 To obtain additional candidates, the area of consideration may be expanded beyond the minimum area listed in Exhibit 544.1 to the appropriate area listed in Exhibit 544.41 or to a larger area.

.412 The area of consideration does not have to be expanded beyond the minimum area listed in Exhibit 544.1 if at least one applicant or nominee meets the position requirements or if the review committee recommends at least one candidate to the selecting official. (See 544.513 and 544.544.)

.42 **Required Expansion.** The area of consideration must be expanded if there are no applicants or nominees within the minimum area who meet the position requirements or if the review committee does not recommend any candidates to the selecting official. The required *minimum* expanded area is listed in Exhibit 544.41. See 544.43 on *maximum* expansion for positions at EAS-19 and below.

.43 Maximum Expansion (EAS-19 and Below)

.431 For vacancies at EAS-14 through 19 in field installations, the area of consideration is normally not expanded beyond region-wide. If there are no applicants or nominees within the region who meet the full position requirements, the Regional Director, Employee and Labor Relations, may submit a request, with justification, to the APMG, Employee Relations Department to:

a. Announce the vacancy Service-wide, if there is a reasonable expectation that fully qualified applicants are available elsewhere in the Service.

b. Authorize recruitment outside the Service if experience indicates that qualified postal employees are not available (usually for highly technical or specialized positions).

.432 For vacancies at EAS-13 and below in field installations, the area of consideration is normally not expanded beyond MSC-wide. If there are no applicants or nominees MSC-wide, the office with the vacancy may request approval to begin recruiting outside the Service (See 542.3). *Exception:* EAS 11-13 postmaster vacancies *are* normally expanded Districtwide when necessary.

.433 Vacancies at EAS-14 through EAS-19 in regional headquarters and district offices, which cannot be filled within the region, are normally announced Service-wide. The area of consideration is normally not expanded in filling vacancies at EAS-13 and below in regional headquarters and district offices.

544.5 Review Committee

.51 General

.511 A review committee of at least three members is established to recommend to the selecting official the candidates who best meet the position requirements for each vacancy. *Note:* See 542.2 for definition of the term "best meets." It may be necessary for the committee to discuss the criteria with the selecting official, particularly where the vacancy announcement lists minimum qualification requirements for the position. If the committee can not conscientiously identify and recommend such candidates, the selecting official is so advised.

Minimum Area	Minimum Expanded Area
District-wide	Region-wide
MSC-wide	District-wide
Installation-wide	MSC-wide

Exhibit 544.41. Minimum Expanded Area

.512 Each member of the committee is independently responsible for being familiar with these policies and procedures. Any member who believes these policies and procedures are not being followed should attempt to resolve the issue with the other members of the committee. Failing that, the member is required to advise the District or Regional Director, E&LR, as soon as possible.

.513 A review committee is not required if five or fewer applications (including nominations) have been received. If a review committee is not used, the selecting official interviews all the available applicants and nominees individually, and selects the one who best meets the position requirements. Approval of the selection must be obtained from the appropriate official listed in 544.521. As an alternative to considering only these applicants and nominees, the selecting official may request to have the area of consideration expanded further. For postmaster vacancies, the SCM, as the recommending official, must interview all applicants if a review committee is not used.

.52 Designation of Members

.521 The following officials designate review committee members:

Organization with vacancy	Members designated by
Regional Headquarters or Regional Headquarters' Field Office	RPMG
District Office, Chicago PO, and NY Int'l & Bulk Mail Center; Postmaster vacancies EAS–24 and above	RPMG
MSC; BMC; Los Angeles and Washington, DC POs; Kennedy and O'Hare AMFs; Postmaster vacancies EAS–22 and below	District Manager
Associate Office	MSC Manager

.522 In filling positions at EAS–1 through EAS–16 (except postmaster positions) these officials may delegate the authority to designate review committee members to the head of the organization with the vacancy.

.523 In designating a review committee member from an organization not under their jurisdiction, the officials listed above are required to obtain the concurrence of the head (or appropriate functional head) of the other organization.

.53 Composition of Committee

.531 Designation Requirements

a. The official who designates the review committee is responsible for assuring that the committee is composed of members who:

(*1*) Have a reputation for being fair and objective, and

(*2*) Fully understand the equal employment opportunity program objectives of the Postal Service and the need to achieve those objectives, consistent with the requirement to recommend applicants who best meet the position requirements.

b. The official who designates the review committee is responsible for making every effort to designate at least one woman or minority employee to serve on the committee. If necessary, the next higher level of management provides assistance in identifying available women or minority employees who meet the other criteria for membership.

.532 Grade Level of Committee. Review committee members must be EAS employees at a grade equal to or higher than that of the vacant position. (PCES executives are eligible to be members regardless of the grade of the vacancy.) If such an employee is not available, an individual who is in a lower grade position, but at a management level equivalent to the vacancy, may serve on the committee. (For example, an MSC director may be a committee member in filling a higher grade MSC director position, as they are at an equivalent management level). For review committee membership, *grade* means an individual's permanent (or saved) grade, and not a part-time or temporary grade resulting from a temporary assignment (detail), *ad hoc* assignment, or temporary promotion.

.533 Restrictions

a. Neither the supervisor of the position to be filled nor any manager exercising authority over the supervisor, up to and including the selecting official, may serve on the review committee or participate in its deliberations.

b. A manager who has signed an applicant's Form 991–B is ineligible to serve on a review committee which will consider that candidate. (An exception to this may be made by the official who designated the review committee, when it is impracticable to designate another manager. The reasons for making the exception must be fully documented and placed in the vacancy file.)

.534 Filling EAS–17 and Above Positions

a. In filling positions at EAS–17 and above, review committee members will include those individuals listed in Exhibit 544.534.

b. If there is no person available in the vacancy office who meets the other criteria for membership, a member from a different office is designated. That person must meet the criteria for membership (the exception in 544.532 may not be used).

c. For a professional or highly technical position covered by Exhibit 544.534, a minimum of two members with a high degree of expertise in that particular professional or technical field is designated.

.535 Filling EAS 1–16 Positions. In filling positions at EAS–1 through EAS–16 in a field installation, at least one member of the review committee is from a different office. The other members are from the vacancy office. If an insufficient number of individuals who meet the membership criteria is available in the vacancy office to serve on a committee, the installation head requests assistance from the next higher organization.

.536 Filling Special Emphasis Positions. In filling positions in the Hispanic Program, the Women's Program, and the Program for Alcoholic Recovery (PAR), a member from at least the next-higher program level is included on the review committee.

.54 Duties of Committee

.541 General

a. The committee considers the Forms 991–A & B of all competitive applicants. (The term *applicants* refers to both applicants and nominees.)

b. The committee may require applicants to submit written samples of their past work which demonstrate their abilities in requirements directly related to the vacant position. However, the committee is prohibited from requiring applicants to take a written test, to write a paper on a specified topic, to analyze and solve in writing a prescribed managerial or technical problem, or to undergo any other kind of written examination.

Organization with EAS-17 or Higher Vacancy	Review Committee Membership
Regional Headquarters or Regional Headquarters' Field Office	1. Appropriate functional member from USPS Headquarters or from within a Region. 2. Member from the vacancy Regional Headquarters or vacancy Field Office. 3. Member from a District Office, MSC, BMC, or (where applicable) the Chicago, Los Angeles, or Washington, DC Post Offices.
District Office	1. Appropriate functional member from a Regional Headquarters. 2. Member from the vacancy District Office. 3. Member from a different District Office.
Chicago Post Office or New York Int'l & BMC	1. Appropriate functional member from a Regional Headquarters. 2. Member from the vacancy office. 3. Member from a District Office, MSC, or another BMC.
MSC, BMC, Los Angeles or Washington, DC Post Office, Kennedy or O'Hare AMF	1. Appropriate functional District Director (an alternate functional member is designated when the vacancy is at EAS-20 or below, if the District Director is not available). 2. Member from the vacancy office. 3. Member from a different MSC or BMC.
Associate Office	1. Appropriate functional MSC Director (an alternate functional member is designated if the MSC Director is not available). 2. Member from the vacancy office. 3. Member from a different associate office, MSC, or BMC.
Postmaster Vacancies	**Review Committee Membership**
Postmaster EAS A-15	1. MSC Director from the vacancy MSC. 2. Associate Office Postmaster from the vacancy MSC. 3. MSC Director or Associate Office Postmaster from a different MSC.
Postmaster EAS 18-22	1. District Director from vacancy District. 2. MSC Director or Associate Office Postmaster from vacancy MSC. 3. MSC Manager or Associate Office Postmaster from a different District.
Postmaster EAS-24 and above	1. Regional Director. 2. District Director from vacancy District. 3. MSC Manager from another District.
Note: (1) Postmaster members must be at a grade equal to or higher than that of the vacancy. (2) Directors need not be at a grade equal to or higher than the vacancy. (3) All members of the Committee may not be from the same functional activity (i.e., CS, MP, FIN, EALR).	

Exhibit 544.534. Review Committee Membership

.542 *Interviews*

a. If the committee desires to interview applicants, the selecting official must be notified. As a minimum, either the committee or the selecting official must interview individually all the candidates recommended for the position by the committee. For postmaster vacancies, either the committee or the Sectional Center Manager must interview individually:

(1) All candidates recommended by the review committee, and

(2) All eligible candidates from the vacancy office, whether or not recommended by the review committee.

b. If both the committee and the selecting official are interviewing an employee from another location, the two interviews should be conducted during the employee's same trip, whenever possible, to reduce travel expenses. (Employees are responsible for being available for interview regardless of personal plans, such as scheduled leave.) The committee should make a reasonable effort to accommodate individual schedules, but is not required to unduly delay its proceedings or recommendations.

.543 *Recommendation Memo*

a. The committee recommends at least three, but not more than five candidates who best meet the position requirements. The committee prepares a memorandum (signed by all members) to the selecting official, listing the names of the recommended candidates. The committee is not permitted to recommend candidates in order of preference (rank-order). Recommendations are submitted in alphabetical order of the candidates' last names, with no indication as to order of preference. The Forms 991 A&B (and written work samples, if required) on the recommended candidates are also furnished to the selecting official.

b. For postmaster vacancies:

(1) The immediate supervisor of each candidate recommended by the committee, as well as of all local eligibles, must complete a narrative evaluation of the candidate in accordance with Exhibit 544.543. This evaluation is reviewed by the next higher level manager who may add any appropriate comments to the file. These evaluations are *not* made available to the review committee, but are forwarded to the SCM for his consideration in making a recommendation.

(2) The Sectional Center Manager prepares a brief comparative analysis of the candidates recommended by the committee, as well as any local candidates. The SCM then recommends one of the candidates for appointment. The complete file (see 544.9) is then forwarded through the District Manager to the RPMG.

(3) If the DM and RPMG concur in the recommendation of the SCM, the entire file is forwarded to the PMG.

If either the DM or RPMG does not concur with the recommendation, they may recommend (with supporting justification) another eligible candidate from among those considered by the SCM and forward the file to the PMG for final approval and appointment.

(4) If the RPMG declines to recommend any of the candidates considered by the SCM, or the PMG declines to give final approval and appointment to any of the candidates, the RPMG directs the SCM to republish the vacancy or expand the area of consideration.

.544 Recommendation of Only 1—2 Candidates. If the review committee recommends only one or two candidates, the committee notifies the official who designated the committee. That official may either:

a. Authorize the selecting official to consider the recommended candidate(s) and make a selection, or

b. Arrange to have the vacancy reannounced with an expanded area of consideration.

c. For postmaster vacancies, a minimum of three candidates is required, unless an exception is approved by the SAPMG, E&LR.

.545 Reannouncements. If the area of consideration is expanded, any candidate recommended by the committee need not reapply, but is considered in competition with applicants responding to the new vacancy announcement. The same or a different review committee may be used.

.546 No Recommended Candidates. If the review committee does not recommend any candidates, the vacancy is reannounced with an expanded area of consideration, as described in 544.42.

.547 Notification. After the selecting official advises the committee that a selection has been made and approved, the committee notifies in writing all applicants not recommended to the selecting official.

.548 Vacancy File. A vacancy file is established for each position filled under the competitive procedures. See 544.9.

544.6 Selection

(All references to "selecting official" in this section apply to the SCM who is the "recommending official" in postmaster selection.)

.61 Selecting Official's Responsibility

.611 The selecting official chooses the individual who best meets the position requirements from among the candidates recommended by the review committee. (See 542.2 for definition of the term "best meets.") (For certain EAS–17 and higher positions, the selection is subsequently submitted to higher-level management for review and approval, as described in 544.63.)

.612 The selecting official must individually interview all the recommended candidates, unless the review committee has already done so. To reduce travel expenses, interviews by the review committee and the selecting official should be held during the employee's same trip, whenever possible. (Employees are responsible for being available for interview regardless of personal plans, such as scheduled leave.) The selecting official should make a reasonable effort to accommodate individual schedules, but is not required to unduly delay the selection process.

.613 Unless the review committee has already provided them, the selecting official may require *all* of the recommended candidates to submit written samples of their past work which demonstrate their abilities in requirements directly related to the vacant position. However, the selecting official is prohibited from requiring candidates to take a written test, to write a paper on a specific topic, to analyze, and solve in writing a prescribed managerial or technical problem, or to undergo any other kind of written examination.

.614 The selecting official must make the selection exclusively on merit, and must not pre-select a candidate. In addition, no action should be taken which will create the impression that all candidates are not given a fair opportunity to be selected, or that a candidate has been pre-selected. The selecting official must not attempt to influence the deliberations or recommendations of a review committee.

.615 If the decision is not to select any of the recommended candidates, the selecting official is required to justify the non-selection and obtain approval (through management channels) from the designating official listed in 544.521 before taking any further action to fill the vacancy. *Exceptions:*

a. For positions in associate offices, this approval must be obtained from the district manager;

b. For the positions covered by Exhibit 544.63, this approval must be obtained from the approving official listed in that exhibit.

.616 After a final selection has been made and approved, and the individual has accepted the offer, the selecting official notifies the other recommended candidates and advises the committee, which notifies all other applicants. These employees are notified in writing.

.62 Interview and Reporting Arrangements

Arrangements to interview applicants or to obtain reporting dates on selected candidates are made through the employee's supervisors or employing office. Exception: Such arrangements involving employees of USPS Headquarters are made through the Regional Director, Employee and Labor Relations, and the General Manager, Headquarters Personnel Division.

.63 Higher Level Approval

.631 In filling the positions at grades EAS–17 and above which report directly to the officials listed in Exhibit 544.63 (whether filled by promotion, reassignment, or any other personnel action), higher level review and approval are required before the personnel action is effected.

.632 If the selecting official and the reviewing officials cannot resolve a difference over the selection of an individual for a position, the issue is referred to the approving official for final resolution.

.633 The authority to determine whether positions not listed in Exhibit 544.63 require higher level review and approval is delegated to each Regional Postmaster General.

544.7 Modifications for Certain Positions

.71 Filling Positions on Ad Hoc Basis

.711 Certain non-bargaining unit positions in the EEO and Hispanic Programs are filled on an *ad hoc* basis. Modifications to the procedure for filling these positions are described in 544.712 and .713.

.712 The minimum area of employee consideration is the same as the area served by the position (installation-wide, MSC-wide, district-wide, or region-wide), regardless of its grade.

EAS 17 or above Position Reporting Directly to	Reviewed by	Approved by
District Manager; Chicago PM; Manager, NY Int'l & Bulk Mail Center	Functional Regional Director	Regional Postmaster General
MSC Manager; BMC Manager; Los Angeles PM; Washington, DC PM; Kennedy AMF Operations Mgr.; O'Hare AMF Operations Mgr.	District Manager and functional Regional Director	Regional Postmaster General
Associate Office PM	MSC Manager and functional District Director	District Manager

Exhibit 544.63. Selection Review and Approval

.713 If there are fewer than three applicants within the minimum area, or if the review committee recommends fewer than three candidates, the selecting official may either select solely from among the available applicants or recommended condidates, or request, through management channels, that the Regional Director, E&LR, grant an exception to permit the reannouncement of the vacancy, expanding the area of consideration.

.72 Procurement Services Office Positions

.721. General. Modifications to the procedure for filling positions in a Procurement Services Office (PSO) are described in 544.722 through .724.

.722 PSO Manager Positions

a. For PSO manager vacancies, the minimum area of consideration is Service-wide. The RPMG designates the review committee which consists of, as a minimum:

(*1*) A Regional General Manager, Procurement Division, or a Regional Manager, Contracts and Supply Management Branch;

(*2*) A District Director, and

(*3*) A PSO Manager.

b. The District Manager makes the selection, which is reviewed by the Regional Director, Finance, and approved by the RPMG.

.723 Other PSO Positions EAS–17 and Above

a. For other PSO vacancies at EAS–17 and above, the minimum area of consideration is region-wide. The District Manager designates the review committee, which consists of:

(*1*) A representative from the Regional Procurement Division;

(*2*) A District Director, and

(*3*) A representative from the vacancy PSO.

b. If no one in the PSO with the vacancy meets the criteria for committee membership, described in 544.53, a representative from a different PSO is designated.

c. The PSO Manager makes the selection with approval by the District Manager.

.724 PSO Positions Below EAS–17. PSO vacancies below EAS–17 are filled as described in 544.723, except that the minimum area of consideration is the total area serviced by the PSO.

544.8 Temporary Assignments (Details)

.81 Policy. The policy on the use of temporary assignments (details) is described in ELM 353.3.

.82 Sixty Day Time Limit. The following policy applies when a vacant position covered by this Subchapter is filled by higher level temporary assignment (detail), pending selection of a person for permanent assignment. An individual may be assigned to the position from the same or another installation for a total of not more than 60 calendar days. If that individual is an applicant for the position, the higher-level assignment must be terminated before the 61st day. If that individual is not an applicant, the next higher level of management may approve an extension of that person's temporary assignment beyond 60 days, until a selection is made and approved and the new incumbent assumes the position. An individual who has served in a vacant position for more than sixty days is ineligible for appointment to that position.

.83 Exclusions. The temporary assignment of a person to the same grade or a lower grade position is excluded from the 60-day limitation. The 60-day limitation also does not apply to the higher level temporary assignment of a person to a position during the temporary absence of the incumbent. The conditions and limitations of these exclusions are described in ELM 353.3.

.84 Officer-in-Charge (OIC)

a. An OIC is an employee assigned the responsibilities of a postmaster position on a temporary basis. An OIC is appointed when a postmaster position is vacant, pending filling of the position on a permanent basis; or when a postmaster is temporarily absent, or is expected to be absent, from the position in excess of 30 continuous calendar days. When a postmaster is temporarily absent, or is expected to be absent, for 30 continuous calendar days or less, the senior supervisor, Postal Operations Administrator or leave replacement, as appropriate, will perform the essential duties of the postmaster position, without being designated as OIC.

b. Unless specific approval is granted in advance by the APMG, ERD, an employee will not be permitted to serve in an OIC assignment for more than 180 calendar days. *Exception:* If the 180 day period expires in the month of December, the assignment will be extended to the end of the first full pay period in January in the following year. (Note: The 180 day limitation does not apply to an OIC assignment to a postmaster position ranked at EAS grades A through 11.)

c. An employee serving or having served in an OIC assignment during a current vacancy at an EAS–13 or

above post office, is ineligible for appointment to the current postmaster vacancy. In unusual circumstances (e.g., sparsely populated geographic areas), an exception may be made with the prior approval of the APMG, ERD.

d. The restrictions in 544.84b & c do not apply when an employee is assigned as OIC during the temporary absence of the postmaster.

.85 Developmental Opportunity. Where consistent with meeting operational requirements, temporary assignments should be used as opportunities to provide employees with experience which will benefit their career development. The selection of employees for temporary assignments should reflect the affirmative action policy of the Postal Service and insure that women and minority employees are utilized in all levels of these assignments.

544.9 Vacancy File

.91 Establishment. For each position filled under the competitive procedure, a vacancy file is established. It is identified and maintained by vacancy announcement number and/or position title.

.92 Contents.

.921 *Only* the following documents (or copies) are to be included in the file:

a. Vacancy announcement.

b. Position description and EL-302 qualification standard, if one exists.

c. Names, position titles, and grades of all review committee members.

d. Documentation on review committee membership if an exception was made under 544.533b.

e. Forms 991-A and 991-B of all applicants, including their work samples, if provided.

f. Review committee's recommendation memorandum to the selecting official, signed by all committee members.

g. Copies of letters to all non-selected applicants. (Unsuccessful candidates for postmaster positions are notified in writing after the selection is announced. See 544.547 and .616.)

h. Name of candidate selected.

i. Memoranda pertaining to the review and approval of the selection.

.922 Postmaster selection files must also contain:

(a) Form 2459, *Acceptance Letter,* from each candidate.

(b) An organization chart for the vacancy office.

(c) Form 1832, *Employee Complement and Organization Data,* for the vacancy office.

(d) Operating budget of the vacancy office.

(e) Community description of the vacancy office.

(f) A comparative analysis, prepared by the SCM, of the candidates recommended by the Review Committee as well as any local candidate(s) whether or not recommended.

(g) Declination statements from any local eligibles who did not wish to be considered for the vacancy.

(h) Most recent Form 2451, Merit Evaluation, on all candidates for vacancies at EAS-18 or above.

(i) Narrative evaluation (Exhibit 544.543) on all applicants considered by the SCM.

.93 Retention

a. The vacancy file is retained in the selecting official's organization for 2 years and then destroyed, unless an audit, investigation, or appeal is pending. The file is subject to review by higher management on a need-to-know basis, and by EEO professionals and officials of the Postal Service. The file may be forwarded through postal management channels to officials of the Office of Personnel Management, Merit Systems Protection Board, and Equal Employment Opportunity Commission who are acting in the performance of their duties.

b. For postmaster vacancies, in addition to the provisions in 544.93a, two complete copies of the selection file will be forwarded to the region with the recommendation. One copy will be retained at the region for two years, and one will be forwarded to Headquarters with the recommendation.

.94 Personal Notes. Any notes made by individual review committee members to assist in evaluating applicants are considered their own property and not records of the USPS. Such notes are not to be circulated among other committee members, nor are they to be included in the vacancy file.

545 Funding

545.1 Relocation Expenses

.11 Reimbursable. Employees who are selected, competitively or non-competitively, as a result of applying or being nominated under a vacancy announcement are entitled to reimbursement of authorized relocation expenses, as described in Chapter 4 of Handbook M-9, *Travel.* This rule also applies when employees voluntarily apply for announced positions at their present or lower grades and are selected. Allowable relocation expenses are paid by the gaining organization.

.12 Nonreimbursable. Relocation expenses are not paid by the Postal Service incident to other voluntary reassignments or other voluntary changes to lower grade positions which are not initiated by management.

545.2 Travel Expenses

Allowable travel expenses for interviews or review committee meetings are borne by the selecting official's organization. [*Exceptions:* 1) PST&DI pays the interview expenses for the placement of MAS Master Instructors who are at or near completion of their 2-year assignments. 2) SCM pays the interview expenses for postmaster vacancies.]

545.3 Salaries

Salaries of selected employees are set in accordance with ELM 410. Note: salaries of employees selected for lower grade positions are set in accordance with ELM 415.271 if the selection is the result of their applying or being nominated under a vacancy announcement. Salaries of employees selected for lower grade positions as a result of other voluntary requests, not initiated by management, are set in accordance with ELM 415.26.

546 Periodic Reports

546.1 Responsibility

Each Regional Director, Employee and Labor Relations, submits to the APMG, Employee Relations, a report on all positions at EAS-17 and above which are permanently filled during each accounting period. The report is submitted within two weeks after the close of the accounting period.

546.2 Content

The report includes:

a. Title, occupation code, grade, and finance number of each position filled.

b. Date the position became vacant and the date it was filled.

c. Names and social security numbers of the person selected and all other individuals who applied or were nominated for the position.

547 Postmaster Selection Procedures

547.1 Coverage

The provisions in this section apply *only* to postmaster vacancies and are in addition to the other provisions in Subchapter 540.

.11 The Postmaster General is the appointing official for all postmaster positions.

.12 The SCM determines the actual dates of installation of newly appointed postmasters, but in every instance such installations must be completed within 30 calendar days of the effective date of the appointment as determined by the Postmaster General.

.13 In order that the National and Regional Directories of Postmasters can be maintained on a current basis, the postal official responsible for the installation of an OIC or a newly appointed postmaster sends copies of the completed Form 2030, *Report of Installation—Postmaster/OIC,* to the appropriate Regional Postmaster Selection Office.

547.2 Authority to Fill Vacancies

.21 The RPMG's authorize the filling of vacant postmaster positions existing within their respective regions.

.22 To the extent possible, all vacancies in postmaster positions must be filled within 120 days of the date the position became vacant. In those instances where the effective date of a vacancy is known in advance by reason of written notification of retirement or resignation of the incumbent, every effort must be made to complete the nomination, selection, and appointment process to preclude the necessity of installing an OIC.

.23 In those instances where the RPMG determines a vacant position is not to be filled pending a final decision on a proposal to discontinue or consolidate a post office, the name of the vacant post office is not included in the list of vacancies published in accordance with 544.24 until a final decision is made to retain the post office.

547.3 Residency Requirement

.31 Postmasters are expected to identify with and be appropriately involved in the communities they serve.

.32 Except for local eligibles appointed to postmaster positions, any newly appointed postmaster who does not reside within the delivery/service area of the post office to which appointed, must move there within one year of the date of appointment. Local eligibles may be required to move if, in the opinion of the RPMG, the employee lives too far away to reasonably fulfill community relations responsibilities. Where an office has no delivery, the SCM will determine the appropriate area where the postmaster will reside. This will be within the service area for the customers of such post offices.

.33 Exceptions to the residency requirement require the approval of the Postmaster General. This authority will not be delegated. Requests for a waiver will be considered only after the appointment has been made. Newly appointed postmasters desiring an exception to the residency requirement must complete Form 2519, *Waiver of Residency Requirement for Newly Appointed Postmasters,* stating the reasons the waiver is requested. This request must include adequate documentation and be submitted to the SCM who recommends approval or disapproval with justification to the RPMG. The RPMG makes an appropriate recommendation to the Postmaster General, who approves or disapproves the request in writing, returned through management channels.

547.4 One-Year Service Requirement

Newly appointed postmasters may not be detailed, reassigned or appointed to another position in the Postal Service until one year has elapsed from the date of installation as postmaster, except in emergencies with the approval of the RPMG.

547.5 Acceptance Letter

Each candidate for a postmaster position is required to complete and sign Form 2459, *Acceptance Letter.*

547.6 Local Eligibles

.61 Qualified career employees at the vacancy post office who satisfy the following eligibility requirements and who exercise the right of self-nomination by the timely submission of Forms 991 A and B, are designated as eligible candidates.

a. Must be a career employee on the rolls of the vacancy office.

b. Must be at a permanent grade (including saved grade) which is no more than six grades below that of the vacancy. If there are no supervisors in the office permanently assigned to a position which is within six grades of the vacancy, supervisors more than six grades below the vacancy may self-nominate. Any career employee at the vacancy post office is eligible for consideration if the only authorized full time management position is that of postmaster.

c. Must satisfactorily meet the basic requirements and qualification standards.

d. Any employee reassigned to another office within normal commuting distance who has retreat rights and is within grade range is considered as an eligible candidate in the office of origin when the postmaster position is vacant.

.62 Employees at the vacancy office who decline to exercise the right of self-nomination are requested to do so in writing.

.63 All local eligibles must be considered by the SCM when making a recommendation for appointment.

547.7 Limited Applications

Employees are limited to applications for no more than three postmaster vacancies at a time.

547.8 Disclosure of Information

.81 Applicability of the Privacy Act

Postmaster Selection Records are described as Privacy Act System USPS 120.130. The records are, therefore, subject

to access under Privacy Act regulations and instructions (39 CFR 266 and ASM 353).

.82 Disclosure to Candidates

Upon written request of candidates, the candidates are allowed access to, or to receive a copy of, each record maintained on them, including evaluative records.

.83 Information which identifies sources who have furnished information about the candidate under an expressed agreement of confidentiality must be excised prior to the release of the record.

.84 The investigative memorandum prepared by the postal inspector may be released *only* by the Inspection Service, and a report must be forwarded to the following address for that purpose: Chief Postal Inspector, U.S. Postal Service, Washington, D.C. 20260. When forwarding, include the candidate's written request.

Exhibit 544.543. Analysis of Postmaster Candidate's Experience, Background and Potential

Postmaster positions are essentially management positions, and as such require people who have demonstrated the basic requirements to manage an efficient operation. This analysis should address the specific experience, training, knowledge, or background the candidate has which realistically supports the capability to perform in the postmaster position.

Evaluators should cite factual information which supports possession, or lack, of the basic requirements, rather than evaluating performance or potential. Use examples of how the candidate demonstrates the requirement in actual work situations, rather than an opinion of the degree to which the candidate possesses it.

The information and questions listed below are intended to guide the thinking and considerations of postal management in evaluating the candidate. The candidate should not be questioned directly for this analysis, rather the evaluator should simply state the information believed to best describe the candidate's experience, training, or knowledge in each of the areas as applicable to the specific postmaster position for which the candidate is being evaluated.

1. Decision Making/Problem Solving

Decisions are made within the framework of policy, with consideration of:

a. What difficulty has the candidate experienced with accepting responsibility, solving problems, making decisions, and taking appropriate action?

b. What decisions has the candidate made that fall outside of established policy, regulations, or precedent?

c. Does the candidate obtain all the facts in a situation and analyze them carefully? (Give examples)

2. Budget Operations

a. What type of budgeting experience has the candidate had (business, farm, home, club or church, etc.)? Cite specifics.

b. Has the candidate ever prepared an annual budget? If so, for what, how much, etc.?

c. Has the candidate had training or education in finance, budgeting, or accounting?

d. Has the candidate ever administered a budget? If so, what kind, how much, for how long, etc.?

e. Has the candidate ever initiated or administered a cost reduction or savings program? Be specific.

3. Planning and Scheduling of Work

Post Office work requires continuous operation 24 hours per day and 365 days per year in many locations. There are also peak periods, such as Christmas, when hundreds of temporary employees may be added to the work force. This makes the planning and scheduling of shifts important to efficient operations. It also points to the need for numbers of training personnel to fill in for illness, vacations, weekends, etc. Keeping trained part-time flexibles is necessary, but having excess personnel is costly and inefficient. The cost of operations can be kept to a minimum by management experienced in planning and scheduling continuous and fluctuating operations. Consider:

a. What kinds of work planning or scheduling the candidate has handled. (Own work, subordinates' work, employees, money, machines, time, etc.) Cite examples.

b. Whether the candidate has short-range (job-by-job) planning or long-range (week or longer) planning experience.

c. The candidate's experience in cyclical or seasonal or peak planning.

d. Whether the candidate's plans incorporate a system for follow-through and controls.

4. Safety and Health

Great expense is involved where employee absenteeism is high and the accident frequency and severity rate is high for injuries to employees. Absenteeism must be kept to a minimum because extra personnel must be available. In an organization the size of the Postal Service this could mean thousands of employees. All of the extra people must be trained and included in the cost of pensions and other benefits. This cost is usually about 25 percent of an employee's salary. The same applies to employees who are injured on the job, with the added cost of Workers' Compensation and misery to the employee. A well managed operation gives priority to controlling absenteeism and safety. Consider:

a. The candidate's understanding of the safety and health responsibilities of a postmaster.

b. How the candidate relates safety and health to efficient operations.

c. What relationship the candidate makes between absenteeism and operating costs.

d. The candidate's personal health and attendance record, including current sick leave balance.

5. Customer and Community Relations

The postmaster has daily occasion to do business with people from all walks of life in the community, and can improve service and reduce costs by convicing industry and business leaders that acceptance of service in non-peak hours, delivery of mail to specific locations, etc., can result in better service and lower cost. It is also important that a favorable Postal Service image is presented to the community. Customer and community relations experience is helpful in this phase of a well managed operation. Consider:

a. What positions the candidate holds in community.

b. Whether the candidate has been active in groups such as chambers of commerce, community improvement associations, homeowners' associations, etc. (Be specific)

c. Whether the candidate has participated in fund-raising campaigns and to what extent.

d. The candidate's experience in selling ideas, positions, or recommendations to others, both within and outside of the post office.

The following areas need to be addressed only when the postmaster position under consideration has subordinate career employees:

6. Labor Relations

Management rights included, but are not limited to, hiring, directing, and disciplining employees, and managing the operations. These are the exclusive functions of management and cannot be assumed by employees or other persons, whether by practice, default, or other methods.

Employees and their representatives have certain benefits and rights and these rights have to be respected if an operation is to be well managed. Consider;

a. What is the candidate's understanding of management's rights?

b. What is the candidate's position regarding the rights of employees and of their labor representatives:

c. What actual relationship has the candidate had with organized labor?

7. Equal Employment Opportunity

Postmasters are responsible for the implementation of an effective equal employment opportunity program, including affirmative action in the recruitment and selection of employees. Postmasters must be able to deal fairly and impartially with all employees and customers.

a. What is the candidate's description of an integrated workforce?

b. What does the candidate consider are the qualifications an employee must possess for employment, promotions, job assignments, etc?

c. What specific jobs has the candidate held which required demonstration of sensitivity to the needs, beliefs, and understandings of minority groups?

8. Employee Development

Ideally, the candidate under consideration has developed supervisors within the post office who are recognized as assets; or the candidate has developed people outside of the post office are recognized in industry as management assets:

a. Cite specific examples of people who have been trained and developed by the candidate. (Use titles, positions attained, methods employed, frequency, etc.)

b. Does the candidate delegate work commensurate with responsibility and authority?

c. Is the advice and counsel of the candidate sought by others? By whom?

d. How does the candidate summarize beliefs on employee development?

9. Supervision

Successful supervision requires both reward and discipline when each is deserved. The supervisor who personally tells an employee about a promotion or a raise in salary, but does not mention poor work performance, absenteeism, or educational deficiencies which can be improved, is not a good manager.

Successful supervision also requires the ability to delegate responsibility to others in the organization, which prevents inefficiency due to work overload and allows the opportunity for development of a subordinate. Larger post offices may have a multi-tour operation as well as several stations or branches.

Experience in control is desirable for efficient operation.

a. What kinds of supervisory experience has the candidate had? (Give titles, numbers, of subordinates, kinds of subordinates, when, etc.)

b. Is the candidate considered a firm or a lenient supervisor? Why?

c. What situations calling for face-to-face discussion with employees has the candidate had? (Explain)

d. What kinds of relationships does the candidate maintain with supervisors at same level? Superiors? Subordinates?

e. How frequently and to what extent does the candidate followup the work of subordinates?

f. What kinds of experience has the candidate had which would require coordinating, directing, and controlling the performance of outlying units such as associate post offices, branches, sales offices, distribution centers, warehouses, regional offices, etc. (Be specific as to exactly what kind, how many, their size, their functions, when, etc.)—*Employee Relations Dept., 5–21–81.*

Question 7. It has come to my attention that there are currently two vacancies on the U.S. Postal Service's Board of Governors and that the Board has almost never operated at full strength. How long have the two vacancies existed? Also, for the record, would you please submit a complete history of the membership of the Board of Governors, including the numbers of vacancies and the length of time each vacancy existed?

Answer.

Term [1]	Length of vacancy
1-Year Term (E. T. Klassen original appointment)	
1971–1972:	
E. T. Klassen appointed 1/71, resigned 12/71 to become PMG.	
John Y. Ing appointed 6/72	6 mo.
1972–1981:	
John Y. Ing reappointed 8/73, resigned 10/74	8 mo.
Hung Wai Ching appointed 8/76	22 mo.
1981–1990; Vacant	7 mo. (to July 1982)
2-Year Term (Frederick R. Kappel original appointment)	
1971–1973:	
Frederick R. Kappel appointed 1/71, reappointed 12/72 for 1971–1974 term.	
R. Earl Holding appointed 12/72	None
1973–1982:	
R. Earl Holding reappointed 6/74, resigned 12/78	5 mo.
Timothy L. Jenkins appointed 8/80	20 mo.
3-Year Term (Theodore W. Braun original appointment)	
1971–1974:	
Theodore W. Braun appointed 1/71, resigned 9/72.	
Frederick W. Kappel appointed 12/72	2 mo.
1974–1983: Robert L. Hardesty appointed 8/76	20 mo.
4-Year Term (Andrew D. Holt original appointment)	
1971–1975: Andrew D. Holt appointed 1/71	None
1975–1984: William J. Sullivan appointed 1/79	37 mo.
5-Year Term (George E. Johnson original appointment)	
1971–1976:	
George E. Johnson appointed 1/71, resigned 8/74.	
William A. Irvine appointed 3/75	7 mo.
1976–1985: George W. Camp appointed 9/79	33 mo.
6-Year Term (Crocker Nevin original appointment)	
1971–1977: Crocker Nevin appointed 1/71	None
1977–1986:	
Richard R. Allen appointed 9/79, resigned 9/80	21 mo.
John R. McKean appointed 3/82	18 mo.
7-Year Term (Charles H. Codding original appointment)	
1971–1978: Charles H. Codding appointed 1/71	None
1978–1987: Paula D. Hughes appointed 8/80	20 mo.
8-Year Term (Patrick E. Haggerty original appointment)	
1971–1979: Patrick E. Haggerty appointed 1/71, resigned 10/73.	
Hayes Robertson appointed 6/74	8 mo.
1979–1988: David E. Babcock appointed 8/80	8 mo.
9-Year Term (M. A. Wright original appointment)	
1971–1980: M. A. Wright appointed 1/71	None
1980–1989: Wallace N. Hyde appointed 12/80 (recess appointment) expiration at conclusion of First Session of the 97th Congress	7 mo. (to July 1982)

[1] All terms end December 8. Original recess appointments were made in January 1971, but were not confirmed until December 8, 1971.

Question 8. What are the administrative costs of maintaining any office of a Governor for 1 year, including salary, travel expenses, support staff, and other expenditures?

Answer. I would be pleased to provide that information for the record.

Administrative Costs of Maintaining
an Office of a Governor - FY 1981

Salary and Benefits		$10,000.00
Meetings:		
Monthly Board Meetings	20 days	
Special Meetings	3 days	
Total	23 days	
@$300.00 per day		6,900.00
Travel Expenses		13,225.96*
Telephone Credit Card		341.45

*Travel expenses vary considerably among the individual Governors. The figure used here reflects the experience of a Governor whose home is far removed from Washington. The expenses of a Governor residing on the East Coast might be only a fraction of those listed above.

Question 9. **What is the total annual budget for the entire Board of Governors? What have been the annual appropriations of the Board of Governors since 1970?**

Answer. No Congressional appropriations are specifically provided for the expenses of the Board of Governors. Authorizations for postal appropriations concern only public service and revenue forgone funding. I will provide for the record a listing of the annual expenses of the Board from 1973 to present.

ANNUAL BUDGET (ACTUAL EXPENSES) FOR BOARD OF GOVERNORS 1973 - 1982

	1973	1974	1975	AP13 1976	Quarter Transition AP20 1976	AP13 1977	AP13 1978	AP13 1979	AP13 1980	AP13 1981	Thru AP 9 1982
Total Salary & Benefits	$114,787	$110,012	$99,195	$99,637	$32,277	$115,389	$103,224	$70,460	$129,228	$125,220	$96,912
Supplies & Services	920	342	39	430					88,711	236,512	274,101
1) Califano, Ross & Heineman											
2) Alderson Reporting Co.											
Travel	15,599	11,759	17,405	19,626	9,334	43,643	37,793	30,156	48,877	73,699	47,760
Printing	317	35	453	1,533	349	614	806	263	598	3,778	1,083
Miscellaneous		1,350	532	319		1,520	157		399	2,382	4,688
Communications						10			8		
Total Operating Expenses	$131,623	$123,498	$117,624	$121,545	$41,960	$161,176	$141,980	$100,879	$267,821	$441,591	$424,544

NOTE: During FY 1982, five contracts are in effect for services to the Board of Governors, i.e.: 1) The Alderson Reporting Co., Inc. (average cost of $200 per month, for reporting open meeting of the Board of Governors), 2) Law firm of Califano, Ross & Heineman (costs depending on services requested and provided); effective 6/23/80; contract calls for Mr. Califano to serve as Counsel to the Board of Governors and for him and his firm to provide legal and counselling services as requested. 3) Clark, Phipps, Clark & Harris, Inc., effective 5/26/83, for evaluation of Human Resources Practices, not to exceed $700,000 through 9/23/83; 4) Mrs. Lee Hudman, Secretary to Chairman of the Board of Governors Robert L. Hardesty for allocation of time to postal services; effective 5/6/82 @ $828.77 per month to September 1982 and @ $895.64 per month after September 1982. 5) Cresap, McCormick, Paget - Contract for review of "STARS" system proposal; effective 3/3/82 through 6/16/82 for total of $144,095.

Question 10. Have there been any recent legislative efforts which you are aware of to abolish the Board of Governors?

Answer. Two bills introduced in this Congress, H.R. 174 and H.R. 2817, propose to eliminate the Board of Governors and transfer its authority to a Presidentially appointed Postmaster General. Several other bills would eliminate the Board while reestablishing the former Post Office Department or, in one case, selling all Postal Service property to a private successor. No action has been taken on any of these bills and, so far as I have heard, none is planned.

RESPONSES TO WRITTEN QUESTIONS SUBMITTED BY SENATOR LEVIN

Question 1. For bulk mail, mailers who prepare their correspondence by sacking 50 or more pieces to the same 5-digit ZIP code receive a fairly substantial discount (17 percent) over mailers with less than 50 pieces going to the same ZIP code. Before September 1981, the minimum requirement for the discount was only 10 pieces. The justification for the increase was to reduce the workload of the BMC's. Yet one effect of the new requirement was to give bulk mailers with a particularly dispersed clientele two rate increases in September 1981. I would like to know what the effects this new requirement had on the Postal Service. Since the new requirement was enacted, how much has the workload dropped at the BMC's?

Answer. Prior to September 1981 when the regulations were changed from a minimum 10 pieces to 50 pieces per sack for 5-digit presort mail, "skin sacks" of 5-digit mail accounted for 45 percent of the third-class mail sack volume. Our most recent survey, conducted in March 1982, indicates that 5-digit skin sacks account for about 23 percent of the third-class mail sack volume. This is a direct result of the change in sacking requirements. The most recent data indicates that 5-digit mail pieces account for 18.7 percent of third-class mail pieces (see Table 1). Compared to last year, the BMC sack sorting workload increased about 10 percent in Postal Quarter III, ending June 11, 1982. However, the accounting period trends indicate a decline in BMC sack sorting workload during Postal Quarter III in fiscal year 1982 while last year the workload trends were increasing.

Question 2. What percentage of the mail formerly sent at the discount rate no longer qualifies for it?

Answer. In the August 14, 1981 Federal Register, the Postal Service detailed the revised preparation requirements for third-class 5-digit presort mail. The Postal Service estimated that "about 35 percent of bulk third-class 5-digit rate mail will be affected by a 50-piece minimum quantity". At this time, we do not know the percentage of mail formerly sent at the discount rate (10 pieces) which no longer qualifies at the 50-piece minimum volume. However, based on the data presented in Table 1, it is apparent that the effect, if any, has been negligible.

Table 1 presents a summary of third-class bulk mail volumes for the most recent four quarters of available data. Separate 5-digit presort rates became available March 22, 1981 (Quarter 3 fiscal year 1981). During Quarter 3 fiscal year 1981, 14.2 percent of third-class bulk mail received 5-digit presort rates. During Quarter 4 fiscal year 1981, 19.1 percent received 5-digit presort rates, and it was late during this quarter (September 13, 1981) that revised preparation requirements became effective for 5-digit presort mail. Quarter 1 fiscal year 1982 indicated that 15.8 percent of third-class bulk mail received 5-digit presort rates. The most recent data available, Quarter 2 ficsal year 1982, shows a gain in 5-digit presort volume to 18.7 percent.

It appears that there was a very short decline in the percentage of 5-digit presort volume during Quarter 1 fiscal year 1982. It is quite possible the change in minimum quantity for this mail was responsible for the decline in 5-digit volume. However, it is apparent that mailers have adequately adjusted to the requirements as evidenced by the latest available data. In summary, there has been a very negligible effect on 5-digit presort volume as a result of the change in minimum volume requirement.

TABLE 1

THIRD CLASS BULK MAIL VOLUMES 1/
(Thousands)

Quarter	Basic	5-Digit	Carrier Route	Total
3 FY 81				
Regular	2,059,228	914,339	2,444,917	5,418,544
Nonprofit	1,658,976	117,810	69,048	1,845,834
Total	3,718,204	1,032,209	2,513,965	7,264,378
Percent of Total	51.2%	14.2%	34.6%	100%
4 FY 81				
Regular	2,480,172	1,660,698	3,689,696	7,830,556
Nonprofit	1,938,823	325,835	297,226	2,561,884
Total	4,418,995	1,986,533	3,986,922	10,392,450
Percent of Total	42.5%	19.1%	38.4%	100%
1 FY 82				
Regular	2,052,153	920,232	3,235,489	6,207,874
Nonprofit	1,511,929	420,722	323,028	2,255,679
Total	3,564,082	1,340,954	3,558,517	8,463,553
Percent of Total	42.1%	15.8%	42.1%	100%
2 FY 82 2/				
Regular	2,223,021	1,235,950	3,052,232	6,511,203
Nonprofit	1,488,228	373,493	247,567	2,109,288
Total	3,711,249	1,609,443	3,299,799	8,620,491
Percent of Total	43.1%	18.7%	38.2%	100%

1/ Source: RPW Reports.
2/ Preliminary data.

Question 3. How much of this mail is no longer being sent and how much is now being mailed at the basic bulk rate (the "all other pieces" rate)?

Answer. By comparing Quarter 4 fiscal year 1981 with Quarter 2 fiscal year 1982 it appears there has been negligible change in the percentage of third-class volume moving at both the basic rate and the 5-digit presort rate. If we were to assume the percentage change in presort volume between these two quarters was solely due to the revised sacking requirements, it appears that the basic rate percentage of total volume has grown 0.6 percent and the 5-digit presort rate percentage of total volume has been reduced by about 0.4 percent. At best, this was a negligible change and cannot be solely attributed to the sacking requirements change. For example, factors such as seasonality can influence the percentage of mail which moves at the various presort rates.

Question 4. Hasn't this increased volume at the basic bulk rate acted as a subsidy for those still qualifying for the 5-digit discount?

Answer. The Postal Service cannot agree with the premise that increased volume at the basic rate acts as a subsidy for those mailers qualifying for the 5-digit rate. As indicated in the answer to your third question, there has been negligible movement to the basic rate in the most recent quarters. Finally, it is important to realize that the establishment of the various presort rates is based on averages of low cost and high cost presort mailers. The more pieces of mail in a sack, the lower the sack processing cost will be on a unit basis. The initial establishment of the discount for 5-digit presort mail of 1.6 cents per piece actually favors those 5-digit mailers with less volume since the presort rate is an average of all 5-digit presort mail.

Question 5. How much are your figures affected by an overall increase in Postal Service usage?

Answer. The figures which I mentioned in my responses to your second and fourth questions are unaffected by increases in third-class volume.

Question 6. What effect has this new requirement had on the cost of mailing for small bulk mailers?

Answer. Since there has been little or no long term decline in 5-digit presort mail as a result of this regulation, the effect on the cost of mailing has probably not changed. However, for those very small mailers who no longer can receive the 5-digit rate (9.3 cents), they would then pay the basic rate (10.9 cents) and, therefore, postage costs would increase by 1.6 cents per piece. However, this increase in postage costs would be partially offset by savings in mailer preparation costs. It is more costly to sack presorted mail to 5-digits.

Question 7. The Postal Service said it would reduce the minimum quantity requirements for the 5-digit ZIP presort discount if it found it could do so without burdening the sacksorter workload beyond control. Can the Postal Service now reduce the minimum quantity requirement?

Answer. As I indicated in my answer to question 1, the sacking change has had positive benefits for the Bulk Mail Centers. The 50-piece minimum quantity for 5-digit presort mail has shown itself to be an important contributor to the processing of sacks at the BMC's. We certainly do not want to return to the critical capacity problems which were caused, in great part, by the 10-piece minimum value for 5-digit presort mail. At this time, we do not anticipate reducing the minimum quantity requirement.

Question 8. Can the revenues earned in Postal Quarter II be used to buy additional machines in order to do this?

Answer. It is highly unlikely that the revenues earned during Quarter 2 fiscal year 1982 could be used to buy additional machines in order to process the additional sacks. All revenues earned by the Postal Service are put into a fund from which all operating and capital expenses are paid. Specific purchases of capital equipment involve long term decisions and are based, in part, on return on investment analyses. Long lead times are necessary for the purchase of capital equipment. Finally, the Bulk Mail Centers are not modular. Significant modifications to increase mail processing capacity would most likely necessitate costly redesign of the Bulk Mail Centers.

Senator STEVENS. Are there any other questions?

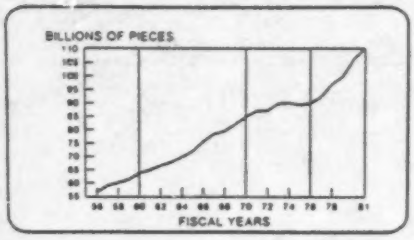
Thank you very much for your courtesy. Hold off any rate increases.

[Whereupon, at 11:40 a.m., the committee recessed, to reconvene at the call of the Chair.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

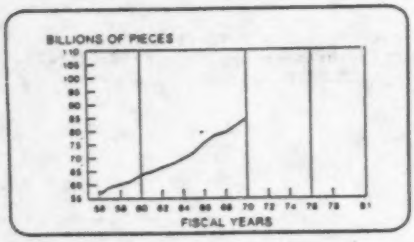
UNITED STATES POSTAL SERVICE
U.S.MAIL

TOTAL MAIL VOLUME



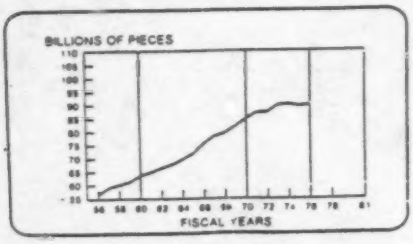
Mail volume historically has grown with the country and this chart illustrates how that growth has occurred in the recent past.

TOTAL MAIL VOLUME



In the 1960's, total mail volume increased by 21 billion pieces or 34%. Extrapolations of these trends led to predictions of a Postal Service totally swamped with mail by as early as 1980. However, in the early seventies...

TOTAL MAIL VOLUME



it seemed that something drastic had happened to mail volume. Its growth curve clearly leveled off and by the middle 70's, predictions of a drastic drop in mail volume were heard. In retrospect, it's easy to see what happened. Inflation, recession and the rate increases necessary to balance costs and revenues took their toll.

A COMPARISON BETWEEN POSTAGE RATE INCREASES AND THE CONSUMER PRICE INDEX

	PERCENT INCREASE 1970-76
CONSUMER PRICE INDEX	47%
POSTAGE RATES	
First-Class	117%
Second-Class	126%
Third-Class	95%
Fourth-Class	43%

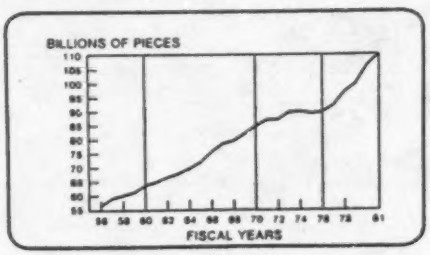
For example, in the 1970-1976 period, while the CPI increased by 47%, the Postal Service was forced to raise almost all its rates at a far faster clip.

A COMPARISON BETWEEN POSTAGE RATE INCREASES AND THE CONSUMER PRICE INDEX

	PERCENT INCREASE 1970-76	1976-82
CONSUMER PRICE INDEX	47%	66%
POSTAGE RATES		
First-Class	117%	54%
Second-Class	126%	124%
Third-Class	95%	40%
Fourth-Class	43%	62%

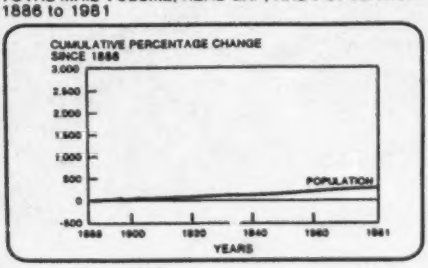
Since the mid-seventies, however, the Postal Service achieved rate stability, having survived the worst of its start-up difficulties. Therefore, although postal volume from 1970-1981 increased by 25 billion pieces or 30% - almost all of the increase has been concentrated in the last five years...

TOTAL MAIL VOLUME



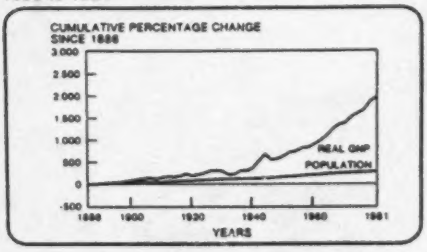
after Postal Service management had achieved the necessary and difficult task of bringing costs into line.

TOTAL MAIL VOLUME, REAL GNP, AND POPULATION
1886 to 1981



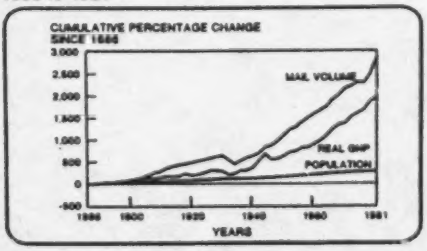
From an historical perspective, the 1975 predictions of a continuing decline in mail volume simply don't seem credible. For over 95 years, the population of the country has climbed at a steady rate of between 1 and 2% per year.

TOTAL MAIL VOLUME, REAL GNP, AND POPULATION
1886 to 1981



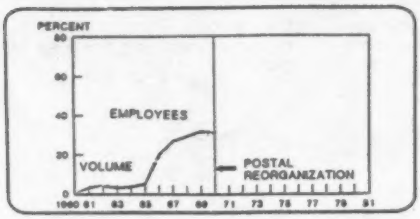
The real GNP has climbed at an ever-increasing rate as our society has increased production and our people have become more and more affluent. Though we had financial panics in the 1890's, two world wars, the Great Depression, Korea, Vietnam and stagflation, the overall economic growth of our country has been outstanding and unstoppable.

TOTAL MAIL VOLUME, REAL GNP, AND POPULATION
1886 to 1981



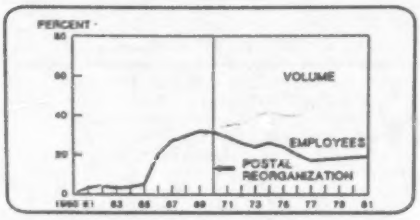
Growing right along with the country and the population has been mail. Again over these 96 years, we have not only gone through economic periods of boom and bust, but have also witnessed more technological innovations than in previous recorded history. The telephone, radio, television and microwave all came int the communications arena. Satellite transmission, data processing and solid state electronics came to fruition. Despite the most probable impact upon our business and repeated pessimistic predictions, postal volum has continued to climb as we have more people with more disposable income.

VOLUME AND WORK FORCE TRENDS
1960 - 1981



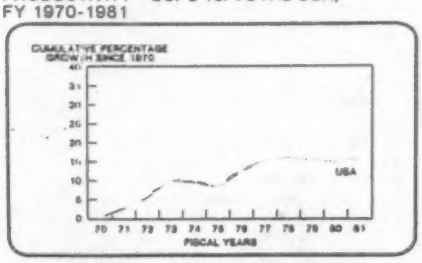
During the sixties and before, that increased volume was handled by increasing the number of employees.

VOLUME AND WORK FORCE TRENDS
1960 - 1981



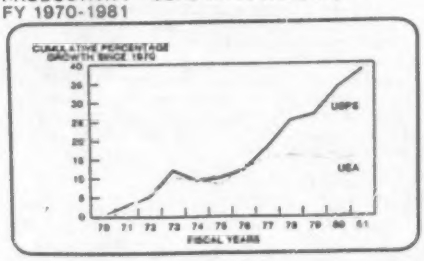
Since Reorganization, however, these steady increases in volume have been processed and delivered with fewer employees, - a condition which I feel is indicative of the effectiveness of Postal management.

PRODUCTIVITY - USPS vs. TOTAL USA,
FY 1970-1981



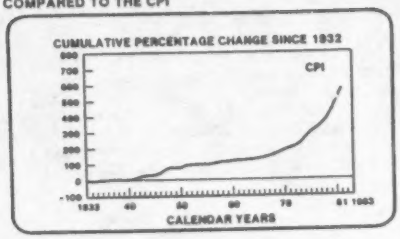
Productivity in the private sector of our economy increased approximately 16% since 1970...

PRODUCTIVITY - USPS vs. TOTAL USA,
FY 1970-1981



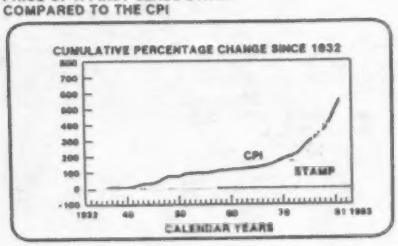
while Postal productivity increases were 38% over the same time period.

PRICE OF A FIRST CLASS STAMP
COMPARED TO THE CPI



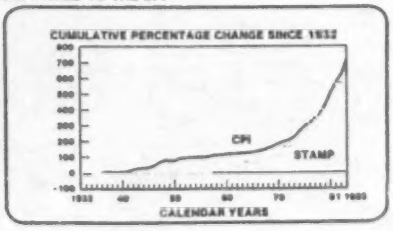
To those who assert that prices have skyrocketed in recent years, I would like to point out that the Consumer Price Index has been on a steady climb since the 1930's, while postage rates were held constant from 1933 to late 1958.

PRICE OF A FIRST CLASS STAMP
COMPARED TO THE CPI



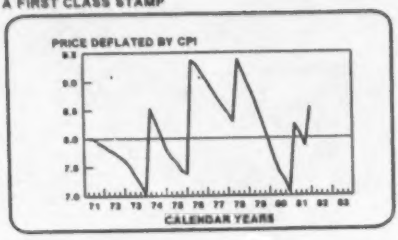
As a matter of fact, by 1981, postage rates, with the twenty-cent stamp, have risen exactly in line with overall price levels in the economy over the 49-year period. If we are able to put off another rate increase until 1984, as I have stated is our goal...

PRICE OF A FIRST CLASS STAMP
COMPARED TO THE CPI



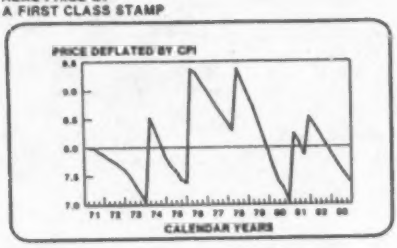
the cost of a First-Class stamp will be well below CPI levels.

REAL PRICE OF
A FIRST CLASS STAMP



Another way of looking at it is to take the postage rate for First-Class Mail and deflate it. This chart illustrates that the "real" cost of First-Class Mail for the past year has been about equivalent to what it was on the day the U. S. Postal Service came into being, July 1, 1971. Again, if we are successful in our efforts to hold off a rate increase...

REAL PRICE OF
A FIRST CLASS STAMP

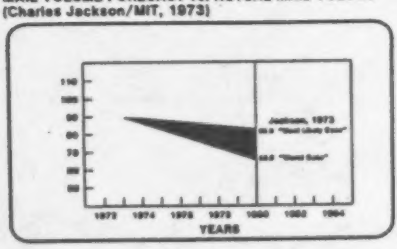


the "real" cost of postage, for individuals and businesses, will be less than 1971 levels relative to average prices for other goods and services.

What
About
Diversion?

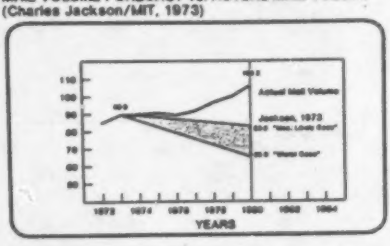
A major topic of concern to you and the Postal Service is the potential diversion of communications now in the mailstream to other services. Over the last decade, much attention has been focused on this issue, with several attempts to determine the potential diversion which could occur. None of these was successful.

MAIL VOLUME FORECAST vs. ACTUAL MAIL VOLUME
(Charles Jackson/MIT, 1973)



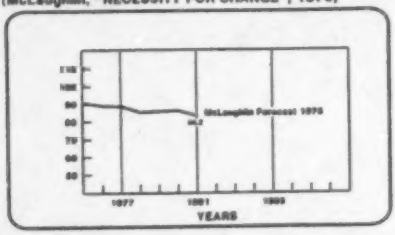
In 1973, Charles Jackson of MIT forecast the effect of electronic mail on the Postal Service...

MAIL VOLUME FORECAST vs. ACTUAL MAIL VOLUME
(Charles Jackson/MIT, 1973)



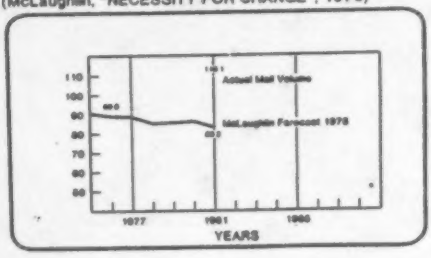
as you can see, he predicted that "at best" 1980 mail volume would be 83 billion pieces, significantly below what actually occurred.

MAIL VOLUME FORECAST vs. ACTUAL MAIL VOLUME
(McLaughlin, "NECESSITY FOR CHANGE", 1976)



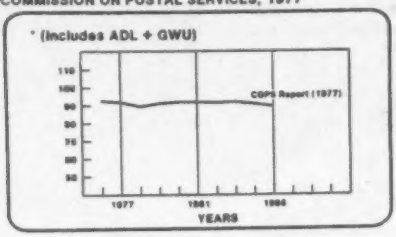
Our own in-house attempt to update previous diversion studies and project future volume arrived at a similar conclusion...

MAIL VOLUME FORECAST vs. ACTUAL MAIL VOLUME
(McLaughlin, "NECESSITY FOR CHANGE", 1976)



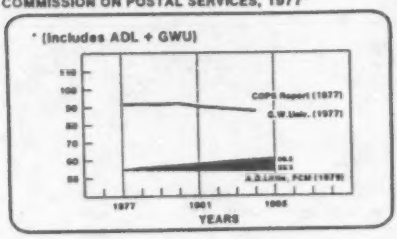
as of now mail volume should only be 83.2 billion pieces.

MAIL VOLUME FORECAST vs. ACTUAL MAIL VOLUME, COMMISSION ON POSTAL SERVICES, 1977*



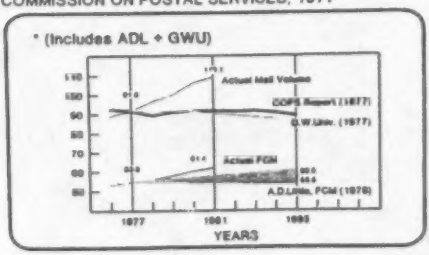
In 1976, the Commission on Postal Service and George Washington University predicted that 1985 mail volume would approximate 90 billion pieces...

MAIL VOLUME FORECAST vs. ACTUAL MAIL VOLUME, COMMISSION ON POSTAL SERVICES, 1977*



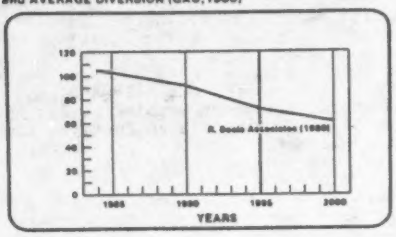
and Arthur D. Little projected that First-Class Mail volume in 1985 would be less than what has already been achieved...

MAIL VOLUME FORECAST vs. ACTUAL MAIL VOLUME, COMMISSION ON POSTAL SERVICES, 1977*



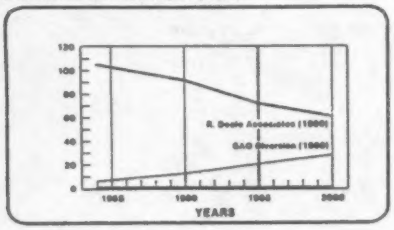
again, the predictions are well below current trends.

MAIL VOLUME FORECAST (Richard Deale Assoc., 1980 Draft) and AVERAGE DIVERSION (GAO, 1980)



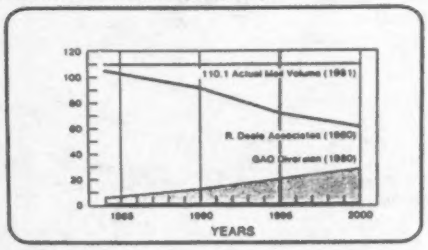
Most recently, the GAO, and Richard Deale Associates in a study for the Office of Technology Assessment, predicted steadily declining volumes...

MAIL VOLUME FORECAST (Richard Deale Assoc., 1980 Draft) and AVERAGE DIVERSION (GAO, 1980)



and steady diversions from the mailstream.

MAIL VOLUME FORECAST (Richard Deale Assoc., 1980 Draft) and AVERAGE DIVERSION (GAO, 1980)



My only comment would be that from what we have seen before, predicting mail volume has been a chancy venture at best.

POSTAL MAIL FLOW: PFY 1979

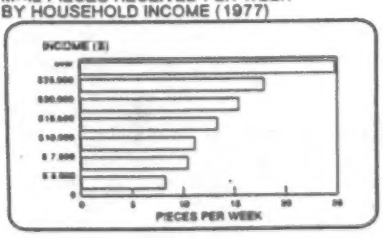
RECIPIENT	SENDER		
	Household	Nonhousehold	Total
Household	6%	56%	62%
Nonhousehold	11%	27%	38%
Total	17%	83%	100%

Despite awesome technological innovation over the last century, mail volume has continued to grow. To find out why, and to get a better handle on our business, we undertook household and nonhousehold mailstream studies during the late 1970's. This was an in-depth look into what actually moves through the mailstream, and who moves it.

Growth in mail volume is heavily dependent upon growth in the economy as a whole.

We learned that businesses send 83% of all mail, and that households send twice as much mail to businesses as they do to one another. Households receive 62% of all mail, and business to business mail accounts for only 27% of the total mail volume.

MAIL PIECES RECEIVED PER WEEK
BY HOUSEHOLD INCOME (1977)



We also determined that the volume of mail which a household receives correlates with household income... households earning over $25,000 receive almost 2-1/2 times the mail a household earning $10,000 receives.

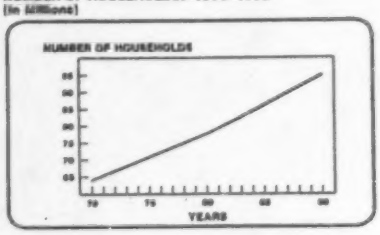
With those factors in mind, let's turn to the future climate in which we will operate.

ECONOMIC INDICATORS
FOR THE PLANNING PERIOD

	1982	1987	% CHANGE
REAL GNP (1972 Dollars)	$1,487	$1,770	19.0%
CPI	7.4%	7.4%	0
CORE INFLATION	7.9%	7.2%	-8.9%
PRIME RATE	15.7%	12.7%	-20.1%

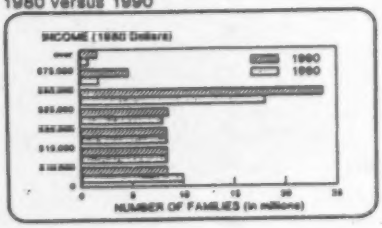
Data Resource Incorporated's latest long-term economic projections show continued growth in the economy and lessening of inflation. This bodes well for the Postal Service.

NUMBER OF HOUSEHOLDS: 1970-1990
(In Millions)



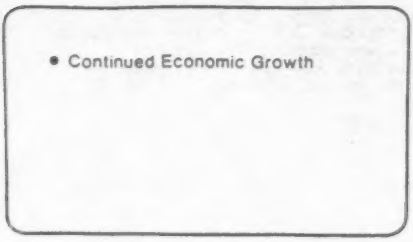
With respect to demographics, the future for increased volume is promising. By 1990, there will be 21 million more people and 16 million new households.

FAMILIES BY INCOME GROUP
1980 versus 1990



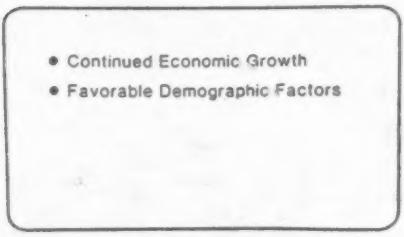
There will also be an increase in real household income during the next ten years, especially in that segment of the population which receives most mail.

THE PLANNING OUTLOOK: FY 1983-1987



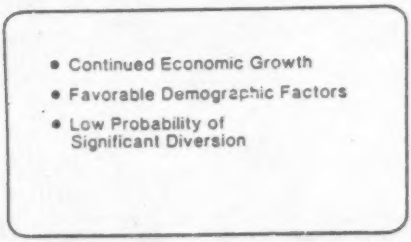
In conclusion, the next five years appear to be a period of continued economic growth...

THE PLANNING OUTLOOK: FY 1983-1987



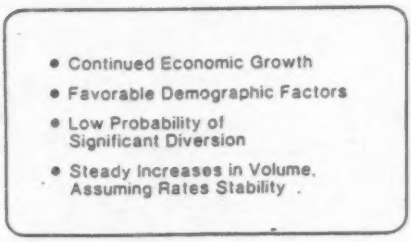
with favorable demographic factors...

THE PLANNING OUTLOOK: FY 1983-1987



and a low probability of immediate volume diversion since the Postal Service is quite strong in the household market.

THE PLANNING OUTLOOK: FY 1983-1987


• Continued Economic Growth
• Favorable Demographic Factors
• Low Probability of Significant Diversion
• Steady Increases in Volume, Assuming Rates Stability

Thus we see volume growth as long as we can keep our costs under control and provide our customers the services they need, at fair and reasonable rates.

I speak for myself and for the people of the Postal Service when I say we look forward to that challenge.